

A STUDY OF CHIEF EXECUTIVE OFFICER (CEO) TURNOVER IN  
VIETNAM: THE LINK BETWEEN FIRM PERFORMANCE AND  
CEO TURNOVER

QUAN TRAN, BA.BS, MBA

Supervised by  
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Dr Bernadette Warner

Thesis submitted to the London School of Commerce/Cardiff Metropolitan  
University in partial fulfillment of the requirements for the degree of Doctor of  
Philosophy.

2013

London School of Commerce



Cardiff Metropolitan University  
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**London School of Commerce**

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## **DECLARATION**

I declare that this work has not been previously accepted in substance for any degree and is not being concurrently submitted for any other degree.

I further declare that this thesis is the result of my own independent work and investigation, except where otherwise stated (a bibliography is appended).

Finally, I hereby give consent for my thesis, if accepted, to be available for photography and inter-library loan, and for the title and abstract to be made available to outside organisations.

Signed \_\_\_\_\_

**Quan Tran**

## **DEDICATION**

Dedicated to my parents who gave me birth and abilities to cross challenges in my life

## **ACKNOWLEDGEMENTS**

Writing a thesis is at the same time a cumbersome, lonely and exciting task. Above all, however, it would have been a downright impossible venture had it not been for people whose unconditional support I was able to rely on at all times.

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Last, but not least, I should like to thank my parents, to whom I dedicate this thesis. No words can duly express my feelings of heartfelt love, gratitude and respect for them. With their kind-heartedness, patience and integrity they are always my anchor windward and my guiding light.

London, 2013  
Quan Tran

## **ABSTRACT**

In general, CEO turnover has been researched widely following numerous studies in developed countries. Nevertheless, the determinants of CEO turnover are still unclear in transition countries of which the legal and regulatory framework are weak and financial systems and corporate governance are underdeveloped. Therefore, examining determinants of CEO turnover in Vietnam, a transition country, helps to provide more evidence on the efficiency and effectiveness of corporate governance in transition countries. Furthermore, the examination helps to define weaknesses, and it, therefore, could provide guidance to improve corporate governance in Vietnamese enterprises.

Particularly, the thesis investigates the CEO turnover in Vietnam following the research philosophy of positivism paradigms and deductive approach. Further, it implied logistics regression in order to evaluate the influences of factors on CEO turnover in Vietnamese-listed enterprises. The sample of the thesis, including 156 listed firms at the end of 2006 in Hanoi and HoChiMinh Securities Centres, 780 firm-year observations have been conducted. Among 780 observations, there are 88 CEO turnovers occurred during the observed period from 2006 to 2010.

The main findings of the thesis show that firm performance had significant inverse relationship with the likelihood of CEO turnover. Meanwhile, the influence of ownership structure on CEO turnover was insignificant. Interestingly, aged CEOs in Vietnamese-listed enterprises were more likely to be dismissed than young CEOs. Additionally, the probability of CEO turnover significantly increased when CEOs reached the ages of 59-61. The certain age also reduced the influence of CEO duality on CEO turnover. Together, CEO ownership negatively influenced the sensitivities of the link between firm performance and CEO turnover, although the influence is insignificant when CEOs own less than 5% of firm shares. Importantly, the thesis provides the significant and positive relationship between the percentage of independent directors and CEO turnover. Based on those findings, the thesis concludes that the efficiency of corporate governance and effectiveness of management are able to improve by increasing the independence of the Board of Management rather than other factors.

## **ABBREVIATION**

**BOM** – Board of Management

**CEO** – Chief Executive Office

**FDI** – Foreign Direct Investment

**GDP** – Gross domestic product

**GMS** – General Meeting of Shareholders

**LDCs** – The Least Developed Countries

**LLC** – Limited Liability Company

**MLLC** – Multiple Member Limited Liability Company

**SBV** – State Bank of Vietnam

**SC** – Stock Company

**SOCB** – State-owned Commercial Bank

**SOE** – State-owned Enterprise

**VND** – Vietnam Dong

**WTO** – World Trade Organisation

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## 1.1. INTRODUCTION

In the first chapter, the research background which will be presented is to provide a background on the area of the research. Indeed, the background helps to address a general picture of corporate governance and disciplinary function through Chief Executive Officer (CEO) turnover. Further, a brief of findings from previous studies is presented in the research background of the thesis. Based on the research background, the reason why this subject is interesting for the researcher to investigate is presented. Researcher motivation is to provide the reasons for choosing the topic of the thesis.

Following the research background and the researcher motivation, the chapter is going to address the aims and objectives of the research. These are to narrow down the problem and finally to address the specific purpose of the thesis. Moreover, contribution is demonstrated following the fulfilling of the addressed aims and objectives of the research. The contribution is expected to present how the findings of the study contribute and enforce the knowledge on the area of research. Finally, the last section provides an overview of the thesis which presents how the thesis is organised.

## 1.2. RESEARCH BACKGROUND

CEOs play an important role in determining many corporate policies and are arguably the most visible representative of the firm to investors. Indeed, shareholders appoint boards in an effort to protect the value of their investment in the firm and to monitor top executives. One of the most important tasks of the board of directors is to hire and fire the top managers to maximise shareholder value. Particularly, board members learn about the ability of the top managers by observing the performance of the firm. If the directors perceive that the ability of the current top managers is lower than the average ability of other potential managers in the labour market, they fire the top managers. The threat of dismissal is an implicit incentive to motivate top managers to exert their best effort. Hence, the relationship between CEO and board of directors which presents for shareholders leads to agent-principal problems. Practically, the agent-principal problem occurs when conflict of interests, or transaction costs exist between members within a corporation. Those factors incur the governance problems in corporations (Hart, 1995).

Therefore, corporate governance is important and necessary in situations where there is an agency problem, a conflict of interests, or exchange costs are involved.

In general, corporations' governance mechanisms include control by the board of directors, struggle over agent rights, hostile takeovers by large shareholders, and a company's financial structure. Especially, the delegation of authority to replace CEOs is given to boards of directors from shareholders. This is central to corporate governance. However, a board of directors is influenced by its characteristics such as board independence (Hermalin and Weisbach, 1998; Bhagat and Black, 2002), stock ownership of board members (Bhagat, Carey, and Elson, 1999), and CEO duality (Brickley, Coles, and Jarrell, 1997). Therefore, a board of directors is not only disciplining the authority of the CEO, but the decision of dismissal of CEO is also complexity. As a result, management changes could be a result of the monitoring by large block-holders or potential competition among managers (Warner et al., 1988; and Harrison et al., 1988). It is consistent with the statement of Yang (2007) that CEO turnover is influenced by and influences many aspects of corporate governance. Furthermore, Volpin (2002) and Gibson (2003) agreed that a good corporate governance system may be reflected by a higher CEO turnover-performance sensitivity. In regard to the studies of the link between stock return performance and CEO turnover, it concluded that poor prior stock return performance is associated with the increase of the likelihood of CEO turnover, suggesting that boards react to protect shareholder wealth (Weisbach 1988; Bonnier and Bruner 1989; Furtado and Rozeff 1987). Further, the reaction confirmed the suggestion of Lloyd (2001) that the basic common principle of corporate governance is expressed via the reaction and contribution of boards to performance of firms. Thus, CEO turnover is important for the development of corporations (Chang and Wong, 2009).

In regard to the vital role of CEO turnover, there are prior studies paying attention to CEO turnover. For example, Balsam and Miharjo (2007) who studied executive turnover took a sample including 42,037 observations, of which 1,467 voluntary turnovers occurred during the period of 1993-2005. This study found that the rate of voluntary turnover was 3.4%. Together, Dunford et al. (2008) found a small rate of voluntary turnover, 2.2%. Furthermore, companies are more likely to have a battle-

tested captain at the helm during difficult economic times. The assessment was reported in the study of Karlsson and Neilson (2009) by concluding the observation during the recession of 2008-2009 in US. Meanwhile, Billiger and Hallock (2005), who had studied CEO turnover in the long-term from 1970 to 2000, had found that the increase of attrition was very slight. Particularly, 60-70% of CEO turnover which was reported in most prior studies was normal turnover, such as planned retirements. Meanwhile, the proportion of CEO dismissal or restructuring was 10-17% (Comte and Mihal, 1990; DeFond and Park, 1999; Vancil, 1987). Besides, forced CEO turnover indicated at around 35% (Karlsson and Neilson, 2009). In contrast, a small proportion of voluntary CEO turnover was reported to be low and within the range of 2-4% (Balsam and Miharjo, 2007; Dunford et al., 2008). However, these figures fail to distinguish the reason for CEO turnover and the practices of corporate governance in observed firms. Hence, the reason and determinants of CEO turnover have been raised and taken into account in numerous studies (Wang, 2010).

In the literature on turnover, a conceptual distinction is drawn between voluntary and forced CEO turnover. Most previous studies try to distinguish the correlation between CEO turnover and determinants of corporate governance, such as firm performance, corporate ownership structure, board of directors, CEO ownership. The most-cited study of forced CEO turnover is the study of Frederickson, Hambrick, and Baumrin (1988). This study brings out “a direct model of CEO dismissal” which shows determinants of CEO turnover. Also, the relationship of CEO turnover with firm performance has gained more concern. As a result, later studies agreed that CEOs are indeed more likely to be forced out of their employment if their performance is poorly related to the industry average (Boone et al., 2007; Linck et al., 2008). Indeed, CEOs are responsible for the performance of the firms they lead. Hence, the likelihood of forced CEO turnover is believed to increase when firm performance declines. The evidence is found in all developed markets, such as the U.K. (Conyon and Florou, 2002), Germany (Kaplan, 1994b), the U.S. (Huson et al., 2001), and Japan (Kaplan, 1994a). However, CEO replacement may occur either because of the voluntary leaving of the current CEO or as a result of forced dismissal. In the other ways, the reason for CEO dismissal may be separated into external turnover through bankruptcy or takeover and board-driven internal turnover. As a result, there is an argument on ownership that concentration in

ownership decreases the sensitivity of the link between firm performance and CEO turnover, while larger outside shareholders would improve the sensitivity (Denis and Denis, 1995). Similarly, Denis, Denis and Sarin (1997) documented that the likelihood of CEO turnover is positively correlated to the presence of large blockholders. Meanwhile, Denis and Serrano (1996) find no evidence that institutional ownership results in increased board monitoring as measured by that increased likelihood of CEO turnover.

With regard to the role of the board of directors in making decisions about CEO dismissal, many studies evaluated the effects of board characteristics on CEO turnover decision. For instance, Barkema and Gomez-Mejia (1998) indicated that four characters of a board including board composition, leadership structure, board size, and board tenure, do affect the CEO turnover decision. Together, Coles et al. (2008) mentioned that characteristics, such as the size or structure of board influence CEO turnover. In fact, prior studies on board characteristics suggested that the link between CEO turnover and firm performance correlate to the characteristics of the board. In detail, Brunello, Graziano, and Parigi, (2003), and Bushman, Dai and Wang (2010) stated that the percentage of outsiders on the board will increase the sensitivity of CEO turnover to performance. Moreover, Hwang and Kim (2009), and Masulis and Mobbs (2009) evaluate the independence of the board and report that the independence of the board is able to lower agency costs and reduce managerial entrenchment.

In addition, CEO characteristics are concerned as CEO turnover determinants. According to Barkema and Gomez-Mejia (1998), and Nelson (2005), the board decision concerning CEO turnover include CEO age, CEO ownership and CEO tenure which are the basic characteristics. Moreover, it seems to be concluded that the more power the CEO has, the less sensitivity of firm performance-CEO turnover correlation is (Horner, 2010). The statement is evaluated by research on leadership structure of board or CEO duality (Brookman and Thistle, 2009; Coates and Kraakman, 2010), CEO ownership (Denis, Denis, and Sarin, 1997; Goyal and Park, 2002; Brunello et al., 2003), CEO age and CEO tenure (Huson et al., 2004; Parrino, 1997). Besides, the influence of CEO gender and education does not reveal a significant effect on CEO turnover following the

result of prior studies (Eisfeldt, Camelia and Kuhnen, 2010). Also, Chi and Wang (2009) found that political relationships impacted on CEO turnover.

From the findings of prior studies, it is possible to state that determinants of CEO turnover seems to include firm performance, ownership structure, firm size, characteristics and size of board, or political relationship (Van Dalsem, 2010). However, this literature has mostly focused on research done in industrialized countries. Meanwhile, there is relatively limited evidence on developing and transitional economies. Yet although many studies have shown determinants of CEO turnover and the effects of these determinants, there is little concern on developing and transition countries. For example, in Russia, and the Czech Republic and the Ukraine, Abe and Iwasaki (2007, 2010) and Muravyev et al. (2009) reported some evidence in the relationship between CEO turnover and firm performance, and several studies have focused on the effects of ownership (Filatotchev, Wright, and Bleaney, 1999; Filatotchev et al., 1999; Bevan et al., 2001).

Besides, CEO turnover in Chinese firms has been explored. For example, Groves et al. (1995) reported an inverse relationship of managerial turnover to firm performance in non-listed SOEs in the 1980s. Together, recent studies such as Firth et al. (2006), Kato and Long, (2006), Chang and Wong (2009), Chi and Wang (2009), examined the sensitivity of the link between firm performance and CEO turnover in Chinese-listed firms during the period 1998-2002. Those studies find that CEO turnover was related to firm accounting performance. Besides, mixed results of the correlation between ownership structure and CEO turnover have been reported. For instance, Chang and Wong (2009) found that ownership influenced CEO turnover but that this relationship moved in opposite directions under state and private ownership. Especially, there are some studies on the effects of political connection (Liao et al., 2009; Cao et al., 2011) and state ownership on CEO turnover (Wang, 2010). The reason for those studies is regarding the transition of China in which there are a larger number of state-owned enterprises (SOEs). However, these studies are few in comparison to the voluminous literature which has arisen in developed countries. Hence, the picture of corporate governance in transition economies is still unclear.

### 1.3. RATIONALE OF THE RESEARCH

The numerous studies of CEO turnover have indicated that there are a variety of factors which could influence the decision-making of CEO dismissal such as ownership structure, board composition, and CEO characteristics (Van Dalsem, 2010). For example, firm performance is indicated as the main measurement for the decision of CEO dismissal (Fredrickson, Hambrick and Baumrin, 1988; Boone et al., 2007; Linck et al., 2008). As a result, a CEO is responsible for his/her enterprise performance. It is believed that poor firm performance increases the probability of CEO dismissal. However, there are arguments raised around the link between firm performance and CEO turnover under the effects of other factors, such as independence of board, concentration of ownership, or CEO power. Regarding the large amount of literature on CEO turnover, Vietnam is considered as an ideal case, since Vietnam is a transition country in which the legal and regulatory framework, financial system and corporate governance are still underdeveloped. Therefore, examining CEO turnover determinants and the link between firm performance and CEO turnover is significant in order to bring out a general picture of corporate governance mechanism and practise in Vietnam. Further, it can bring an insight and review of the prior studies in researching the determinants of CEO turnover.

With regard to the vital role of understanding CEO turnover, many studies have documented that CEO turnover is a vital concept in the corporate governance literature (Jensen and Murphy, 1990; Kaplan, 1994; Sheilfer and Vishny, 1997; Kato and Long, 2006; Barron et al., 2010). In fact, the effectiveness of corporate governance in spurring the replacement of CEOs is well documented in developed countries with developed markets (Weisbach, 1988; Murphy and Zimmerman, 1993; Engel et al., 2003; Bushman et al., 2004; Ertugrul and Krishnan, 2011). Nevertheless, the scholars seem to bring an unclear picture of the efficiency and effectiveness of the corporate governance mechanism implemented in transition and emerging economies. Especially, the effectiveness and efficiency of corporate governance mechanisms and practices have been questioned in economies which are influenced heavily by political factors, such as China and Vietnam. As a result, these countries' economies comprise a larger amount of state-owned enterprise (SOE) and 'young' private sector. Hence, an argument has arisen

that SOEs, by pursuing multiple objectives which include political objectives, weaken the effectiveness of market-based corporate governance mechanisms as well as ignoring the alignment of corporate governance with firm performance. Referring to Vuong and Tran (2010), the Vietnamese government, by using its powerful policies and budget, intervenes directly the business operation of SOEs. Indeed, the conflict results were found in a study of CEO turnover in China undertaken by Kato and Long (2006). This study points out that there is a weak link between performance of companies and CEO turnover in listed companies in which the larger shareholding belongs to the State. Meanwhile, the sensitive of the link between performance of companies and CEO turnover is stronger in other listed companies. Therefore, research on corporate governance practices and their integration into the market-based economies in transition economies has a vital role in the success of the economies (Bui and Nuno, 2008; Vu, 2009; Chow, 2010).

According to Steer and Sen (2010), Vietnam provides an appropriate empirical context as a transition economy. In the past few decades, the Vietnamese economy has seen significant economic growth and rapid poverty reduction. Along with the growth in the economy, the unique corporate governance mechanism has been receiving more attention. In fact, Vietnamese corporate governance mechanism has adapted from mature markets. Vietnam has borrowed and applied both of the most effective corporate governance structures in the world, which are the Anglo-American and the German structures (Bui, 2006, LeMinh and Walker, 2008, Bui and Nuno, 2008). It creates a combination of the two models in the Vietnamese corporate governance mechanism which include the Board of Management (BOM) and the Control Board. In the model, two monitoring organs coexist. One is independent directors which was adapted from the Anglo-American structure. The second is the Control Board which is found in the German model. Practically, the Control Board in the Vietnamese system is unlike the one in the German system. The Control Board in the Vietnamese system is not engaged in daily operation management and is responsible for monitoring the behaviours of executives and the BOM (Bui and Nuno, 2008, LeMinh and Walker, 2008). Thus, arguments are rising around the overlapping functions of these two monitoring organs in the Vietnamese corporate governance system. An intensive argument which has been raised in discussion is the effectiveness of the structure of corporate governance. As a

result, both the BOM and the Control Board holding almost the same responsibilities might weaken the effectiveness of corporate governance (Bui and Nuno, 2008). Besides, Xiao et al. (2004) and Xi (2006) pointed out that the same argument is also found in China where the corporate governance mechanism is similar to the Vietnamese corporate governance structure. Furthermore, prior studies on corporate governance have indicated that board independence is an important factor in improving the efficiency of board operation. Also, board independence has a strong influence on firm performance and CEO turnover (Weisbach et al. 1988; Yermack, 1996; Hermalin and Weisbach, 2003; Hwang and Kim, 2009; Masulis and Mobbs, 2009). Hence, studying CEO turnover which is the result of corporate governance practices could provide ideas for how Vietnam could improve its corporate governance systems.

In fact, Vietnam has also witnessed a number of enterprise scandals which are the results of corporate governance malpractices. These scandals have included some of the largest enterprises in Vietnam, including subsidiaries or affiliates of PetroVietnam (Petroleum Technical Service Company), Vietsovpetro, Petechim, Vietnam Airlines (Vinapco), Seaprodex, Incombank, Viet Hoa Bank, Saigon Beer, Minh Phung, and Epco (Freeman and Nguyen, 2006). The reason for these scandals is weak internal corporate governance in Vietnamese enterprises. Indeed, a weak internal corporate governance system can be evaluated via the internal disciplinary mechanism that determines CEO turnover (Cai and Chen 2004; Kato and Long, 2006). When, there is a lack of effective market for corporate governance, it weakens the internal corporate governance. Besides, Vietnam still has weak investor protection and poorly-defined property rights, especially for minority investors (Tran et al., 2007; Bui and Nuno, 2008,). Thus, these can lead to an agency problem in Vietnamese enterprises. Indeed, Volpin (2002) documented the agency problem in Italy by studying turnover of top managers in the absence of strong investor protection. Therefore, Vietnam is an appropriate case for a research of internal corporate governance, especially the link between firm performance and CEO turnover. As a result, it could evaluate the investor protection and agency problems in a transition economy where the majority shareholders are commonly the government with multiple and complex objectives.



With the economic reform, named Doi Moi, which has been undertaken in Vietnam from 1986, the private sector has been approved and developed. Besides, the appearance of publicly-listed enterprises has created more attention on these enterprises' operation and their corporate governance. In the beginning of market-oriented economic reform, many SOEs have converted to joint stock companies and have listed enterprises (Bui and Nuno, 2008, Vu, 2009; Tran et al., 2007). Besides, the private sector is still young. Therefore, Vietnamese-listed enterprises are conducted by a majority of converted SOEs and private-listed enterprises. Indeed, the prior studies undertaken in China where the corporate governance system is similar to Vietnam have showed a mixed result. For instance, Tenev and Zhang (2002) and Firth et al., (2006) argue that the involvement of party bureaucrats and the state in the appraisal process would reduce the probability of CEO dismissals, even though firms experienced poor performance. In contrast, other studies indicate that state controlled firms are not always considered as less efficient than private controlled firms (Liao et al., 2009; Wang, 2010; Hu and Leung, 2010). Hence, examining the corporate governance of listed enterprises in Vietnam is significant in order to get a better understanding about corporate governance in transition economies. Besides, it could bring a comparable result by evaluating the efficiency of corporate governance in converted SOEs and private enterprises.

#### **1.4. RESEARCH AIM AND OBJECTIVES**

Following the motivation of the thesis, the research aim and objectives are indicated in order to focus and gain the success of the study.

##### **1.4.1. Research aim**

Going deeper into the existing corporate governance practices in Vietnam, this study aims to investigate the determinants of CEO turnover in order to evaluate the link between CEO turnover and firm performance and achieve a better understanding of CEO turnover process in Vietnamese-listed enterprises. Also, the thesis would conclude and analyse the research outcome to present the relation of firm performance with CEO turnover as well as the determinants of CEO turnover in Vietnam. Furthermore, it attempts to bring out an insight of corporate governance in Vietnamese-listed

enterprises and the efficiency of the economic reform in Vietnam where the legal and regulatory framework, financial system and corporate governance is underdeveloped.

#### **1.4.2. Research objectives**

Accordingly, the primary aim of this thesis is to investigate the determinants of CEO turnover in order to evaluate the link between firm performance and CEO turnover. Specifically, this study's objectives can be addressed as below:

- To critically evaluate relevant literature on CEO turnover in order to develop a conceptual framework that will help to understand CEO turnover in Vietnam.
- To identify and test the factors which impact on the CEO turnover process in Vietnamese-listed enterprises.
- To evaluate the link between CEO turnover and firm performance in Vietnamese-listed enterprises.

#### **1.4.3. Research questions**

In order to fulfil the aim and objectives of this study, a variety of questions has been defined for this study.

- What are the factors that impact the CEO turnover process in Vietnamese-listed enterprises?
- What is the relationship between firm performance and CEO turnover in Vietnamese-listed enterprises?
- How is the practice of disciplinary function in Vietnamese-listed enterprises understood by exploring CEO turnover?

### **1.5. CONTRIBUTION**

In this study, a unique aspect of corporate governance in Vietnam, which is the link between firm performance and CEO turnover, is investigated. In addition, determinants of CEO turnover are going to be examined. Particularly, the thesis explores how and when owners decide to replace the incumbent CEO. This examination not only provides the reason of CEO dismissal, it also reveals an important insight into how effectively a

firm resolves conflict of interests between the shareholders and CEO. By linking CEO turnover to measures of firm performance, firms are more able to align the interests of shareholders with CEOs. In fact, there are relatively few studies of CEO turnover pertaining to transition economies, even though there is a voluminous literature using the data from developed countries. This study could bring a contribution to the literature on CEO turnover in transition countries. Since the characteristics of transition countries are reported to have weak legal and regulatory framework, inefficient financial systems, heavily relying on SOEs and underdeveloped private and foreign sectors, the corporate governance in the countries is ineffective and inefficient. Especially, this study could bring new research to Vietnam in which there is clearly a lack of studies focusing on CEO turnover and corporate governance. Hence, this study not only contributes to the existing literature on the determinants of CEO turnover but it also reveals the differences in contrasts to the ideal case, Vietnam.

Practically, it is believed that a weak internal corporate governance system can be evaluated via the internal disciplinary mechanism that determines CEO turnover (Cai and Chen 2004; Kato and Long, 2006a). When, there is a lack of effective market for corporate governance, it weakens the internal corporate governance. In fact, the Vietnam economy lacks significant investor protection and a functioning capital market, and is subject to expand the control and influence of the government (Bui and Nuno, 2008, Tran et al., 2007). Thus, the agency problem might occur in Vietnamese enterprises regarding these facts (Volpin, 2002). Hence, together with the evaluation of the CEO turnover-performance link, this study discusses what the monitoring functions are by examining the influence of a two-tier-board governance structure on CEO turnover and the link between firm performance and CEO turnover. Moreover, it is going to explore the ownership structure in Vietnamese enterprises in order to show the influences of ownership structure on the link between firm performance and CEO turnover. These debates would present the incumbent corporate governance practices in Vietnam. Based on these evaluations, this study will provide new insights into how the two types of agency problems play out in a transitional economy.

Additionally, researching the effects of CEO characteristics on the sensitivity of CEO turnover to firm performance would present the conditions and characteristics of CEO

in Vietnamese enterprises. The finding provides a better understanding to evaluate the argument that CEOs in SOEs are appointed by the Vietnamese Government based on political considerations or political connections rather than based on their ability in gaining a better performance from firms.

Furthermore, this study attempts to evaluate CEO turnover decision and the effectiveness of the corporate governance mechanism in Vietnam. Since Vietnam has similar characteristics to other transition countries, it lacks of full market competition and democratisation. Besides, the Vietnamese Government still has strong influence on the economy and the structure of corporate governance. Compared to developed countries, the external capital market is considered as a driven factor which influences corporate governance. Together with corporate governance, the previous studies provided different insights of the influence of government on corporate governance. For example, it is considered that governments usually pursue multiple objectives under political views and therefore the involvement of government might damage the operation of firms controlled by government. Besides, in these firms, the existence of individual shareholders may be precluded and the government has more incentives to monitor managers. On the other hand, other studies present the view that regulations or the control of government can be considered as a “check-and-balance mechanism” which would improve the efficiency of corporate governance. This role is more necessary in an economy where lacks pro-market institutions and has a less-developed environment (Shleifer and Vishny, 1997; La Porta et al., 2000). Therefore, this study not only contributes to the existing literature on the influences of pressure of the external capital market on Vietnamese corporate governance, but it also provides an insight into the influence of government on corporate governance in a numerous number of SOEs in Vietnam. In detail, this study examines an argument on the influences of Vietnamese government on corporate governance practices on SOEs.

Lastly, with the development of globalisation and the increasing economy integration, this study may offer a general picture to Vietnamese government and enterprises on how to improve Vietnamese corporate governance mechanisms and corporate governance practices in Vietnamese enterprises.

## 1.6. OVERVIEW OF THE THESIS

The remainder of this study is organised as follows. Chapter One provides an introduction of the thesis, which includes research background, research motivation, research aim and objectives, and contribution to knowledge of the thesis. The chapter helps to provide an overview of the thesis.

Further, Chapter Two reviews the literature pertaining to the determinants of CEO turnover, and the evidence that presented in international studies and in transition economies. In detail, Chapter Two reports the findings of prior studies on determinants of CEO turnover following firm characteristics, board characteristics, CEO characteristics and industry characteristics. Along with the findings from developed countries, the results of previous studies in developing and transition countries are reviewed.

Chapter Three presents a review of Vietnam as the host country of this study. In the chapter, the characteristics of Vietnam, which are typical characteristics of a transition country, are presented. Besides, the changes under the economic reform of Vietnam are given. It helps to understand the role of government, financial system, and the development of the legal framework in Vietnam following the economic reform. Moreover, Chapter Three provides a review of governance structure and corporate governance in Vietnamese-listed enterprises.

Following Chapter Two and Chapter Three, Chapter Four will develop the conceptual framework of the thesis. Indeed, the conceptual framework is developed based on the review of previous studies. Further, Chapter Four details the development of the hypotheses concerning the linkage between CEO turnover and firm performance under the effects of other factors adopted from literature and the facts in Vietnam.

Chapter Five is designed to provide the research design and research methodology of the thesis. Firstly, it presents the adapted research philosophy and research approach. Later, the methodology and designation which help to test the hypotheses of the thesis are presented. In fact, the chapter also explains the reason for choosing the methodology and designation.

Chapter Six and Chapter Seven report and provide discussion about the results from the study. Particularly, Chapter Six presents the statistical description of collected data in the thesis. Furthermore, correlation analysis and univariate analysis are undertaken in order to provide initial assessments related to the hypotheses of the thesis. Meanwhile, Chapter Seven presents the results and discussions on the tested logistic regression models in the study. The chapter concludes with the summary and analysis of the results of tested hypotheses.

Finally, Chapter Eight concludes with the empirical findings in the thesis. Moreover, the contributions to theory, methodology and practice are demonstrated. Along with these, the chapter addresses the limitation of the thesis and presents potential future areas of research.

## **CHAPTER TWO: LITERATURE REVIEW**

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## 2.1. INTRODUCTION

Many studies have revealed that CEO turnover is important for the development of corporations (Chang and Wong, 2009). Additionally, CEO turnover has influenced many aspects of the corporation (Yang, 2007). In fact, CEO turnover may occur either as a result of forced dismissal or because of the voluntary resignations of current CEOs. Also, CEO turnover can be results of internal turnover and external turnover through bankruptcy or takeover. For example, Martin and McConnell (1991) report that the turnover rate for top management of a company is significantly higher following completion of a takeover by another corporation. Besides, the result of this study shows that the targets were under performing in their respective industries. Therefore, the existence of a takeover market serves to increase the likelihood that poorly-performing CEOs will be fired (Klock, Mansi, and Maxwell, 2005).

Along with the reasons for CEO turnover, previous studies have pointed out several determinants of CEO turnover which include firm performance, ownership structure, firm size, characteristics and size of board, or political relationship (Van Dalsem, 2010). Most prior studies researched on the relationship between firm performance and CEO turnover and documented that CEOs are indeed more likely to be forced out of their employment if their performance is poor, related to the industry average (Fredrickson, Hambrick and Baumrin, 1988; Boone et al., 2007; Linck et al., 2008). Hence, the CEO plays a vital role in a company's operation and should be responsible for performance of the company (Berry et al., 2006).

However, there are other studies which show the influences of other factors on CEO turnover such as ownership structure, board independence or CEO turnover. For instance, Kato and Long (2006) investigated the effects of ownership structure on CEO turnover by using micro data from Chinese-listed companies. Besides, Chi and Wang (2009) found that political relationship has impacts on CEO turnover. Together with those studies, Barkema and Gomez-Mejia (1998), and Coles et al. (2008) mentioned that characteristics, size or structure of the board also have an effect on CEO turnover while, Nelson (2005) investigated that CEO characteristics have their influence on CEO turnover. Similar to the study of Nelson (2005), Fredrickson et al. (1988), and Gibson



(2003) also mentioned that members of a board draw on a wide range of cognitions of firm characteristics, CEO characteristics, and characteristics of the industry, in performing their jobs.

Consequently, the CEO turnover decision is not only depending on firm performance but it is also about the effects of other factors such as firm characteristics, CEO characteristics, board characteristics and industry characteristics. Therefore, Chapter Two explains CEO turnover determinants which are adapted from prior studies of CEO turnover. Besides, the thesis mainly concerns the board-driven internal turnover, since the objectives of this research are to examine CEO turnover determinants and evaluate the sensitivity of the link between firm performance and CEO turnover. Hence, the chapter is firstly providing a review on the literature of the determinants of CEO turnover. Particularly, the determinants of CEO turnover are to include firm characteristics, board characteristics, CEO characteristics and industry characteristics. Along with the direct influences of those characteristics, their effects on the sensitivity of the CEO turnover-performance link are also presented via the findings of previous studies. Further, a review of studies on CEO turnover undertaken in transition countries is presented regarding the limitation of evidence on CEO turnover in transition countries. The review will present the factors which were researched in transition countries and influenced CEO turnover. The findings of those factors help to compare and contrast to the findings in developed countries, and are useful to reference in following chapters.

## **2.2. DETERMINANTS OF CEO TURNOVER**

This section details the determinants of CEO turnover. The prior studies of the determinants are critically discussed in order to reveal the effects of the determinants on CEO turnover.

### **2.2.1. Firm characteristics**

In terms of firm characteristics, firm performance, firm ownership structure, firm leverage, firm size and firm diversification are major characteristics. Therefore, a review of those characteristics' influences on CEO turnover is presented in the section.

### *2.2.1.1. Firm Performance*

In fact, different definitions and measures of firm performance have also been provided in the literature (Barney, 2002). For example, measures of financial performance such as return on assets (ROA), profitability, capital employed and percentage of sales resulting from new products (Selvarajan et al., 2007; Hsu et al., 2007). Also, net income after tax (NIAT), earnings per share (EPS) and return on investment (ROI) are used to measure financial performance of firms (Grossman, 2000). Meanwhile, accounting performance which includes expenses divided by sales, sales return, inventory loss, defects, total operating expenses divided by sales can be used instead of financial performance (Wright et al., 2005). Further, Selvarajan et al. (2007) mentioned that firm performance is able to be measured following 'perceived performance approach'. However, financial, accounting or stock performances are major performances which are used in researching on CEO turnover by previous studies.

It is clear that there is extensive literature on the managerial labour market as well as the link between firm performance and CEO turnover. Many studies which researched CEO turnover in developed countries such as the UK and the US pointed out an inverse correlation of the probability of CEO turnover with performance of firm (Muravyev et al., 2009). Those studies show that firm performance plays a crucial role in CEO turnover research. It is unsurprising that firm performance is predicted as the clearest determinant of CEO turnover. Coates and Kraakman (2010) stated that firm performance is used as a measurement of CEO ability and effort. Besides, firm performance presents a proxy for CEO's effort. Hence, the probability of CEO removal is greater following performance decline or financial distress. Based on another point of view, the correlation between firm performance and CEO turnover is considered as the mirror of the efficiency of the corporation's governance mechanisms. It was supported by prior studies which hypothesised the sensitivity of CEO turnover to firm performance (e.g. Kang and Shivdasani, 1995; Kaplan, 1994; Lausten, 2002; Renneboog, 2000; Volpin, 2002).

Also, Bhagat and Bolton (2008) iterate the finding of previous studies which is that the likelihood of CEO dismissal is increase following poor firm performance firms with

effective corporate governance. For example, Denis and Denis (1995) indicate that a significantly poor performance is the basic reason for disciplinary turnover. Meanwhile, Huson, Parrino and Starks (2001), used the data of 1316 CEO turnovers for 8424 firm years from 1971 to 1994, and found that the likelihood of forced CEO increases over time and relates to firm performance. Besides, Huson, Parrino and Starks (2001) evaluated that the most important determinant of forced CEO replacement is the firm performance. In particular, a board of directors compares and judges the performance of firm with previous performance or other firms. Moreover, Huson, Malatesta and Parrino (2004) analyse an event study of the firm performance improvements around CEO turnover events. The result of this study expressed that announcements of CEO turnover are correlated to significantly positive average abnormal stock returns. In detail, the changes in CEO positions are significantly positive correlated to subsequent changes in performance of firms measured by accounting proxies.

In regard to Volpin (2002), there is an increased probability of CEO dismissal along with the decrease of firm performance. The poorer firm performances, the greater likelihood of CEO turnover is. Furthermore, Kaplan and Minton (2006) found that poor stock performance predicts internal turnover. It also is supported by the study of Jenter and Kannan (2010). In the study, a large sample of firms was taken to investigate the influence of firm performance on the dismissal of CEOs. The study of Jenter and Kanaan (2010) investigated that poor firm performance relates to the probability of CEO dismissal based on the evidence from including the S&P 500, between 1993 and 2001. Similar to the study of Kaplan and Minton (2006), Jenter and Kanaan (2010) found that either poor performance relates to a firm's industry competitors or industry-wide shocks to share returns have effects on CEO turnover. In addition, Bushman, Dai and Wang (2010) who researched the role of firm performance in CEO turnover decision indicated that there is a strong relationship of firm performance with CEO turnover regarding to several prior studies of Coughlan and Schmidt (1985), Warner, Watts, and Wruck (1988), Barro and Barro (1990), Kaplan (1994a, 1994b) and Brickley and Van Horn (2002). Later, Kaplan and Minton (2012) confirmed a strong correlation of forced CEO turnover to firm performance in U.S companies via measuring performance of firm by stock performance. Particularly, they reported an increase in the

turnover rate from their prior study and the stronger sensitivity of firm performance to CEO turnover.

Besides, analysing a sample of the largest quoted firms in France between 1994 and 2001, Nguyen-Dang (2009) showed a result which, similar to prior studies by Weisbach (1988) and Denis et al. (1997) with U.S. firms, shows that French CEOs are effectively sanctioned for poor performance. This study also pointed out that forced CEO turnovers are negatively and significantly correlated to accounting and stock performance. In another study undertaken in the UK, Dahya, McConnell and Travlos (2002) followed the issuance of Cadbury (1992) code in analysing 460 UK industrials in the period of 1988-1996. The result of their study expressed that the inverse correlation between CEO turnover and firm performance is concentrated and stronger among firms that adopted the code.

Moreover, using the data base and comparing between 150 US firms and 119 Japanese firms for the period of 1980-1988, Kaplan (1994) suggested that the relation of CEO turnover with firm performance is similar in those two countries. Together with this, Taki (1994) analysed 142 Japanese companies and pointed out that poor income performance increases CEO turnover probability. The same result as Taki (1994) was found by Abe (1997) by examining the correlation of firm performance to CEO turnover in Japanese companies. However, the relationships are different following different measures of firm performance.

In other words, Hermalin and Weisbach (2003) bring out a substantial issue in most of the studies that the influence of firm performance on the possibility of CEO dismissal is the distinction between forced resignations and voluntary departures of CEOs (Muravyev et al., 2009). Particularly, their study has shown that an inverse correlation between CEO turnover and firm performance is still associated with poor performance, even ignoring the differences occurring in the reasons of CEO turnover (e.g. voluntary departure, forced resignation, and covering routine turnover). Moreover, Hermalin and Weisbach (2003) argue that the relation of routine turnover with performance of firm is weak and it seems to be far from why voluntary departures of CEOs are triggered by poor performance. However, a consensus in CEO turnover literature is confirmed that

the likelihood of CEO turnover is reflected by the inverse correlation of CEO turnover with performance of firms (Muravyev et al., 2009).

### ***2.2.1.2. Ownership Structure***

Regarding previous studies on CEO turnover, ownership structure is a substantial indicator of CEO turnover. In terms of ownership structure, ownership type and ownership concentration are the two major concepts which have influences on CEO turnover. Indeed, He and Sommer (2011) reviewed the study of Brickley and Van Horn (2002) on the correlation of ownership structure to CEO turnover, and indicated that there are differences among firms with different ownership structure. Along with types of shareholding, ownership concentration is a concept which represents the power of the shareholder in a corporation. In particular, the levels of concentration in management rights that are normally belonging to large shareholders are reflected by ownership concentration. Thus, the decisions of shareholders to have management rights directly affect corporations. Regarding the two implications of ownership structure, the review of literature on the relation of ownership structure and CEO turnover is guided clearly. Thus, this section reports the findings of previous studies on CEO turnover regarding the two major concepts.

#### **Ownership types**

In considering the relations of ownership structure to other concepts, it is theoretically leading to the implications of ownership structure. Jensen and Meckling (1976) suggest considering the ownership types and ownership concentration under the term of ownership structure. In terms of ownership types, there are differences of characteristics among shareholding types. Hence, different types of shareholding lead to different behaviours and influences on firms. As Zanjirdar and Kabiribalajadeh (2011) stated, there are a variety of ownership types which compose the ownership structure of corporations. Together, Nguyen-Dang (2009) reported that different ownership types and compositions of owners have different influences on corporate governance and performance.

Considering the relation of ownership types to CEO turnover, Nguyen-Dang (2009) reported that there are a numerous number of studies which paid attention to the relationship. For example, state ownership and CEO ownership are two types of ownership which have received more attention than other types. Especially, the relation of state shareholding and CEO turnover is widely concerned in transition countries where the number of SOEs is still large. Along with these shareholding types, the influences of outside ownership on CEO turnover are considered in previous studies. For instance, the role of 'active' investors and management turnover was investigated by Denis and Serrano (1996). This study examined 98 unsuccessful control contests between 1983 and 1989 in the US in order to determine whether turnover is concentrated in firms where the outside shareholder has obtained an ownership stake. By the period of observation, the study found 62 US firms had CEO turnover events between contest initiation and for up to 2 years following the resolution of the control contest. Besides, there was high incidence of CEO turnover which was concentrated in poorly performing firms in which outside shareholders obtained an ownership stake during or immediately following the control contest (Strivens, Espenlaub and Walker, 2008).

Together with the study above, Denis, Denis and Sarin (1997) found that CEO turnover is positively associated with the effects of outside shareholding on firms by taking the sample of 1394 US firms over the period 1985 to 1988. In another study, Denis and Denis (1997) also document that the possibility of CEO dismissal positively related to the presence of outside blockholders and negatively correlated to stakes held by officers and directors. This study brings out an argument that ownership affects both internal and external control mechanisms and the allocation of control. Together, Franks, Mayer and Renneboog (2001) have taken a sample of 243 companies, which are randomly selected from all the listed companies on the London Stock Exchange in 1988, including real estate companies, financial institutions and insurance companies in order to investigate the relationship between outside ownership and board turnover. This study found that there is an active market in blocks of shares which correlates to major board changes. However, the findings presented that there is a weak relationship between outside ownership and board turnover when the firm experienced poor performance.

Along with the studies on the correlation between outside ownership and CEO turnover, institutional ownership, which is one kind of outside shareholding, is widely examined. As a result, Black (1992) and Pound (1992) contend that institutional shareholders also perform a monitoring function similar to large blockholders. In fact, Parrino, Sias and Starks (2003) have examined changes in equity ownership around forced CEO dismissal in order to investigate whether institutional investors are relative to the likelihood of CEO dismissal when dissatisfied with the firm's management. They have observed and analysed 583 CEO dismissals from large firms in the period from 1982 to 1993. The result has presented that the number of institutional investors and aggregate institutional ownership decline in the previous year to CEO dismissal. Besides, the study has pointed out that the measure of institutional investors related to the possibility of CEO dismissal, although selling by institutions is far from universal. As a result, institutional investors pay more attention to and are interested in prudent securities which are better informed or are engaged in momentum trading. Meanwhile, there is a controversial result found by Huson, Malatesta and Parrino (2004) in analysing an event study of the firm performance improvements around CEO turnover events. Their study found that the degree of improvement has positive relationship with the level of institutional shareholdings following a CEO turnover event. Nevertheless, the study is unable to determine whether the institutional investors increase the possibility of CEO turnover. The result is similar to the study of Huson, Parrino and Starks (2001). By using the data of 1316 CEO turnovers for 8424 firm years from 1971 to 1994, Huson et al. (2001) have found that there was no relationship between institutional investors and CEO turnover. Besides, Goyal and Park (2002) indicated that institutional investors do not influence the CEO turnover-performance sensitivity by examining a sample of the largest French-listed firms from 1994 to 2001.

Considering studies undertaken in the UK, Strivens, Espenlaub and Walker (2008) have reviewed the literature on CEO turnover and the correlation of CEO turnover to firm ownership structure in the UK, and indicated that the findings in the UK are mixed. For example, institutional investors have a substantial positive influence on routine turnover and a strong negative effect on non-routine turnover, which are the findings by Dahya, Lonie and Power (1998). Meanwhile, Dahya and Power (1998) found no significant relation between institutional shareholdings and CEO turnover by using a 10% dummy

for larger institutional shareholdings. Their studies confirmed the finding of Cosh and Hughes that the institutional shareholders have no significant relationship with the possibility of CEO turnover. Besides, Dahya, McConnell and Travlos (2002) followed the issuance of Cadbury (1992) code in analysing 460 UK industrials in the period of 1988-1996. They have attempted to measure the impact of the code on the link between CEO replacement and firm performance. The result of their studies is that CEO replacement increased following issuance of the code. Nevertheless, no significant correlation between institutional investors and CEO replacement was found. Similarly, the impact of Cadbury (1992) was studied latterly by Dedman (2003), in order to evaluate the influence of the code on CEO replacement. The study is similar to the study of Dahya, McConnell and Travlos (2002), but the period of observation was shorter, from 1990 to 1995. Even though the introduction of the Cadbury code is the same as the prior study, the findings are contrary with the prior study. It was found that institutional shareholdings had significant positive relationship with the likelihood of CEO turnover (Strivens, Espenlaub and Walker, 2008).

### **Ownership concentration**

Together with the correlation of ownership types and CEO turnover, the relation of ownership concentration to CEO turnover is also considered. Nguyen-Dang (2009) stated that the role of large shareholders is important in studying corporate governance. It is argued that the appearance of large shareholders increases the level of ownership concentration, and therefore it increases the efficiency of corporate governance in firms. For example, Kaplan and Minton (1994) indicated that the existence of large shareholding increases the probability of CEO and top management team's replacement when firm performance is poor by examining Japanese firms. On the other hand, Franks and Mayers (2001), who investigated German companies, found an inverse correlation between the presence of large shareholders and CEO turnover. Besides, Goyal and Park (2002) suggested that firms which have the presence of block-holders are less likely to fire CEOs for poor performance. This is confirmed in a later study of Kaplan and Minton (2012). They reported that large shareholder ownership slightly related to the sensitivity of firm performance-CEO turnover. This indicates that the higher level of ownership concentration, the more power block-holders have. Consequently, high



concentration of ownership might weaken the sensitivity of the CEO turnover-performance link (Nguyen-Dang, 2009).

### **2.2.1.3. Firm leverage**

Theoretically, there are not many studies considering the relationship between firm leverage and CEO turnover. However, the effects of firm leverage on CEO turnover could be presented by different approaches. In measuring firm performance, firm leverage is one of the factors which could influence the measurement. As Adams and Mansi (2009), and Chang and Wong (2009) stated, firm leverage, or the ratio of the book value of long-term debt to the book value of total assets, is used to control for differences in capital structures of firms. Hence, firm leverage has been taken as a controllable factor in the researches of the link between firm performance and CEO turnover. The evidence is found by looking at managerial turnovers and firm performance. Particularly, Denis and Denis (1995) and Huson et al. (2004) presented the result that leverage has been above normal for the previous year or two when a CEO is fired. This finding is consistent with the idea that debt might have been accumulating due to poor corporate performance. It also leads to the replacement of the CEO by the board in hopes of improved performance. In addition, Huson et al. (2004) stated that leverage is significantly elevated before forced CEO turnover and is usual after forced turnover. Along with those studies, Berger et al. (1997) and Safieddine and Titman (1999) debate that CEO turnover is related to subsequent increases in firm leverage when they found the evidence consistent with operating and stock performance improvements.

Besides, leverage is concerned as a disciplinary power on CEOs by managing cash flow and financial distress under their control. CEOs, therefore, may prefer lower leverage, since they are more likely to be dismissed when firm leverage is high (Cohen, Hall and Viceira, 2000). However, a high likelihood of CEO turnover may be a result of high leverage in case firm leverage is high by implementation of riskier financial policy (Coles, Daniel and Naveen, 2006). Similarly, Gilson and Vetsuypens (1993) suggest that high levels of financial leverage in financially distressed firms often lead to managerial discipline. Franks et al. (2001) document higher turnover when firms are

experiencing low performance and high leverage. Together with these studies, in order to examine the influence of CEO on corporate financial policy, Cao and Mauer (2010) found that the frequency of CEO turnover is much less when the firm never changes its debt policy. Indeed, the study focuses on the significant changes in financial policy by analysis of the changes on firms' debt policy from zero leverage to positive leverage or from positive leverage to zero leverage. Besides, several determinants of capital structure, corporate governance, and potential of CEO turnover are used for controlling the result of the study. Consequently, the finding confirms that there is a correlation between the level of firm leverage and CEO turnover.

In fact, there are some studies which concern the direct effects of leverage on CEO turnover. For example, Harrison et al. (1988) attempt to evaluate that CEO turnover is higher in firms that are more levered. As a result, it is expected that managers are more tenuous in firms experiencing greater financial risk. Nevertheless, the findings of this study fail to support this notion, since there is no significant relationship between the capital structure of the firm and CEO turnover. Similarly, Frank and Goyal (2009) found no evidence that firm leverage is different before and after CEO turnover. Contrary to these studies, the results in Eriksson et al. (2001) are supportive. It suggested that a low solvency rate is associated with a significantly higher probability of CEO turnover. In other words, the CEO has a high likelihood of being dismissed when firm leverage is higher and firm diversification is lower (Sponholtz, 2006). Additionally, Dimopoulos and Wagner (2010) examined the data from 6,000 years CEO over the period 1995-2005 in the UK and Germany, and found that firms with high leverage in both countries, and with small boards in the UK, exhibit higher sensitivity of turnover to performance. Moreover, Cheng, Li and Tong (2008) considered firm leverage as an independent variable that has positive significant estimates in all the turnover models. Their findings showed that the dismissal decision in SOEs depends significantly on the ability of top managers in both financial and general expenses. This finding supports the effectiveness in controlling debts and expenditure is important. Consequently, those studies confirm that there are influences of firm leverage on CEO turnover, which could directly or indirectly impact the likelihood of CEO turnover.

*2.2.1.4. Firm Size and firm diversification*

In researching firm characteristics, firm size is one of the elements correlated to CEO turnover. In fact, Offenber (2009) has tested the relationship between CEO turnover and firm size and found that an increase in CEO discipline is consistent with the increase in firm size. However, no evidence was found that smaller firms have higher rates of CEO turnover than larger firms. Even though the findings of prior researches are different, it cannot be denied that the top level executives in large firms are dismissed more frequently than in small firms (Offenber, 2009). For example, Weisbach (1988) investigated that there is insignificant relation of firm size with CEO turnover. Meanwhile, Cosh and Hughes (1997) assessed that the possibility of CEO dismissals is higher in smaller size firms when firm performance is poor. However, a large number of studies provided an inverse finding with those studies above. In fact, several other studies documented that the probability of CEO dismissal is greater in larger firms (Warner et al., 1988; Harrison et al., 1988; Parrino, 1997; and Huson et al., 2004).

According to Parrino (1997), the pool of qualified managers and the possibility of forced CEO turnover decrease when firm size increases. The findings of this study represent that large firms have more outsiders on their board of directors, have CEOs with less fractional ownership, and are more complex organisations with greater managerial depth. Beside, Pfeffer and Moore (1980) stated that large firms often replace top level managers with insiders, whereas small firm more likely to appoint outsiders. Together with this, large firms are less likely to take outsiders for replacing the CEO position which could incur incentive costs (Dalton and Kesner, 1985). This factor represents the difference in terms of firm size. As a result, large firms typically have a larger internal pool of management talents. Thus, those factors influence the CEO turnover and support the empirical finding of a significantly positive relationship between CEO turnover and firm size (Sponholtz, 2006). Furthermore, Parrino (1997) indicates that there are more executive development plans in large than in small firms. Therefore, these plans help larger firms to be less willing to terminate a CEO having poor performance. Similarly, Lausten (2002) and Eriksson et al. (2001) also found the positive relationship between firm size and CEO turnover by using Danish data.

Together with firm size, firm diversification also correlates to CEO turnover (Berry et al., 2003). In general, large firms seem to have investments in different industries. Therefore, firm diversification could be understood as another aspect of the increase in firm size. It leads to firms facing hard decision in replacing the CEO and finding CEO candidate in order to fulfil the complex nature of diversification and managerial ability (Berry et al. 2006). Thus, firm size not only has an inverse correlation with the probability of CEO turnover, but firm diversification also has a negative relationship with CEO dismissal. For instance, Berry et al. (2003) examined the relationship between the level of firm diversification and CEO dismissal in order to test theories of managerial entrenchment. The result of the study reveals a negative correlation between CEO dismissal and firm diversification. Moreover, an additional finding is that voluntary dismissal is associated with firm performance in diversified firms.

In addition, Berry et al. (2003) found that diversified firms are likely to manage the succession process more carefully because they require CEOs with greater ability. This finding supports the finding of Parrino (1997) that larger firms usually have executive development plans more than smaller firms. Besides, the degree of organisational complexity and performance measures may be less informative in diversified firms. For example, stock prices are generally unable to aggregate information for performance measurement when the manager oversees a diverse set of projects (Paul, 1992). Hence, the CEO dismissal decision is more complex and is varied by the level of firm diversification. In fact, many studies have argued theoretically about diversification in terms of managerial entrenchment. In case CEOs diversify their firms in order to entrench themselves, it would increase the costs of replacing them in the firms. Furthermore, it would limit the supply of potential candidates for the CEO position Berry et al., (2006). Thus, the percentage of forced turnover in focused firms is less than in diversified firms (Sponholtz, 2006).

### **2.2.2. Board characteristics**

Board composition, board size and leadership structure are major characteristics of a board of directors. Hence, they are undertaken in various studies of CEO turnover which are going to be represented during the section.

### *2.2.2.1. Board Composition*

Previous research on CEO turnover has concentrated on board composition, especially on the independence of the board. In fact, the board of directors represents the body of shareholders in charge of monitoring managers and protecting the shareholder interests. Hence, the board of directors responds to various strategic tasks such as business strategy, appointment and dismissal of the CEO. If the board of directors performs a good monitoring and counterweight to powerful CEOs, it will improve the quality of management and firm performance. Starting from this point, the question how board composition affects the quality of management and CEO turnover has been raised. In terms of board composition, a board of directors could include insiders, outsiders or grey directors. Outsiders are directors who neither work for the corporation nor have extensive dealings with the company, while insiders are full-time employees of the firm. Grey directors do not work for the corporation, but have extensive business dealings or relationships with management (Fahlenbrach, et al., 2010).

Comprehensively, it has been argued in literature that insiders on boards have valuable knowledge about the firm and that the advice they provide is valuable to the CEO and the firm performance (Mace, 1986). Even though insiders do have elaborated knowledge of the firm's operation, there is empirical evidence indicates that outsiders are better at monitoring than insiders. The finding is clearer when the outsiders are truly independent. As a result, outsiders are generally considered as having experience and ability to conduct reviews for a range of firms. Importantly, these directors are seen as independents since they are less involved in the activities related to firm operation and their own self-interest in firm performance is less (Fredrickson, Hambrick, and Baumrin, 1988). As a key mechanism of corporate governance, independent directors face fewer constraints in monitoring managers and may improve the firm's operation. For instance, Rosenstein and Wyatt (1990) report that stock prices go up at the announcement of outside director appointments. However, boards might not always be independent, since directors are not chosen by shareholders but by the CEOs they are supposed to monitor (Lorsch and MacIver 1990; Shivdasani and Yermack. 1999). Moreover, outside directors are generally viewed as independent; however, it is necessary to distinguish between the independence of those directors and grey directors

who might be former employees or have any family relationship with the top management or a business relationship with the firm.

In fact, prior studies measured board independence by the ratio of outside directors on the board. Although outsiders are always concerned to exert more control on management and to care more about shareholder value than inside directors, empirical research reports mixed results. For example, Hermalin and Weisbach (1991), Klein (1998), and Bhagat and Black (2000) found non-significant correlation between accounting performance and the percentage of outside directors. Similarly, Kaplan and Minton (2012) reported that the sensitivity of firm performance-CEO turnover is modestly associated with the independence of the board which is created by the presence of independent directors on it. In contrast, Hermalin and Weisbach (1988) documented that the relation of CEO removal with firm performance is higher when the board of directors is dominated by outsiders. Also, Brunello, Graziano, and Parigi (2003) informed that a board consisting of more outsiders is more likely to dismiss a poorly performing CEO.

Furthermore, Bushman, Dai and Wang (2010) stated that the sensitivity of CEO turnover to performance is higher along with the increase of the percentage of outsiders on the board. Besides, Hwang and Kim (2009) refine the notion of board independence by defining an independent director as socially independent if he has no social ties with the CEO. The findings of this study presented that there is a significantly lower level of CEO compensation and a stronger relationship between CEO turnover and firm performance in firms where boards are both socially and conventionally independent than firms in which boards are only conventionally independent. Meanwhile, Masulis and Mobbs (2009) evaluated the effect of independent board on managerial entrenchment and agency cost, but this study differs from other studies by focusing on the independence of inside directors. They documented that the independence of board could reduce managerial entrenchment and lower agency costs. In their study, inside directors who also hold outside directorships are viewed as directors who are less dependent on the CEO.

### 2.2.2.2. *Board Size*

In general, most empirical studies have raised the argument on the effects of board size on firm performance. Along with those studies, the influence board size has on CEO turnover has also been researched. For example, Jensen (1993) suggests that the optimal size of a board may be about seven or eight. Parrino and Weisback (1999) examined the correlation of CEO dismissal to performance of firm and stated that the number of directors (size of board) is important as a determinant in CEO turnover. As board size increases, the board of directors seems to be less cohesive. For example, protracted battles within a large board of directors could occur following issues which adversely impact the CEO, especially if the CEO is involved in the appointment decision of the board members (Fredrickson, Hambrick, and Baumrin, 1988). Hence, large boards may not dismiss CEOs having poorly performing promptly. In the other words, small boards are more effectively discipline poorly performing CEOs (Franks, Mayer, and Renneboog, 2001).

Moreover, Yermack (1996) and Wu (2000) document that the possibility of CEO turnover is increased for the firm which has a smaller board. In detail, analysing the data from 452 large firms between 1984 and 1991, Yermack (1996) report that CEOs are more likely to be dismissed by smaller boards following periods of poor performance. This result is similar to the results in the studies of Lipton and Lorsch (1992) and Jensen (1993) which argue that agency costs and myopia increase with board size. Similarly, Anderson et al. (2004) argue that limiting the size of the board of directors will improve firm performance while additional directors could slow-down the decision-making process even though they could help the firm to improve monitoring. In analysing the impact of board size on the quality of the board's decision-making, Dahya, McConnell, and Travlos (2002) found that a larger board worsens the coordination problems across board members.

Furthermore, from the point of view that a board consisting of more outsiders has more incentive to dismiss CEOs having poor performance, the board has become more streamlined. However, previous studies report a decline in the number of board members of large companies in their sample period (Bacon, 1990; Coles et al., 2008).

In addition, Jensen (1993) and Yermack (1996) argue that the operation and monitoring of the board are more effective and efficient in a streamlined board. This argument suggests that the inverse relationship of CEO turnover with firm performance is expected to be strengthened by the reduction of board size. Additionally, complex firms commonly have larger boards of directors, and need greater information for evaluating the CEO's performance, whereas smaller boards are value maximizing for simpler firms (Coles et al., 2008). Therefore, in a larger board, the decision of CEO dismissal requires a larger number of votes, thus, it may limit the probability of CEO dismissal.

### *2.2.2.3. Leadership structure*

In concerning the board of directors' leadership structure, it is theoretically led by the chairperson who monitors the CEO and is responsible for designing compensation packages, setting goals, and evaluating performance of the CEO. Meanwhile, a CEO is given authority to make decisions of investment and to manage the operation of the firm. In terms of board structure, the literature reveals that there are two systems of board structure which are the one-tier system and the two-tier system. The two-tier system has a different person as the board chairman and is separate from the CEO, while in the one-tier system, the CEO is also chairman of the board (Horner, 2010). Theoretically, the principal-agent problem could occur when an individual plays both of these roles. When an individual is holding both of the positions, this is one-tier system and relates to the term of CEO duality. In fact, the section is focusing on CEO duality in order to explore the influences of leadership structure of boards on the probability of CEO dismissal.

Generally, it has been noted that the one-tier board structure type leads to leadership facing the conflict of interest and agency problems (Bickley and Coles 1997). In fact, the chairman of a board wields power to influence the board and the CEO (Lechem, 2002). Holding the power, the chairman responds to different views, ideas and discussions to enable an effective and harmonious decision-making. Hence, the effectiveness of the board is decided and relied on the chairman (Leighton and Thain, 1993). Therefore, it is assumed that if the CEO holds the position of board chair, the role of the board in monitoring and evaluating performance of the top managers would



be weakened (Coles and Hesterly, 2000). In contrast, Brickley et al. (1997), investigated the separation of CEO–Chairman leadership structure, and documented that firms which combine the duties perform no worse than those that do not combine them. However, Jensen (1993) stated that the internal control system might fail if the CEO also holds the chairman position of the board. In this case, the board ineffectively performs its key functions which are the evaluating performance of CEOs and dismissing CEOs. Together, Fama and Jensen (1983) suggest that the effectiveness of a board in monitoring top managers is reduced when decision control and concentration of decision management in one individual. Several corporate governance activists have also expressed similar concerns about combining the CEO and chairman responsibilities. Therefore, the decision of CEO removals might be affected in the one-tier system.

Consistent with the study of Jensen (1993), Goyal and Park (2002) assess these two competing views by focusing on how the leadership structure of a board impacts the sensitivity of CEO turnover to firm performance. Since a board's decision to replace a poorly performing CEO is a major internal control mechanism, CEO replacement decisions provide a natural setting for examining if the concentration of decision control and management exacerbates agency problems in firms. If the lack of independent leadership in a firm with a single CEO–Chairman reduces monitoring by the board and makes difficulties for the board to dismiss a poorly performing CEO, the likelihood of CEO dismissal is likely to be less sensitive to performance in a firm with a combined CEO/chairman position than in firms with two separate positions.

### **2.2.3. CEO characteristics**

In terms of CEO characteristics, CEO age, tenure, CEO ownership, CEO gender and education received considerations by prior studies of CEO turnover. In the section, the influences of the characteristics on the probability of CEO turnover in previous studies are presented and discussed

### 2.2.3.1. *CEO age*

It is believed that a CEO's competence is able to rise by acquiring more experience with time goes. However, the firm would find it beneficial to dismiss the current CEO if the firm starts to doubt CEO's ability, even though the CEO's competence could increase. In fact, Coates and Kraakman (2010) stated that CEO age has a correlation to firm performance, and therefore it is considered to have influence on a CEO's competence. In regard to Finkelstein and Hambrick (1990), CEOs' age has long been found to influence corporations' outcomes and decision processes. Indeed, older CEOs tend to be less likely to initiate strategic change and more conservative, while younger CEOs have consistently been considered to be associated with risk taking and innovativeness (Stevens, Beyer and Trice 1978; Wiersema and Bantel, 1992). Besides, the correlation between a young CEO and firm growth has been reported (Child 1975; Hambrick and Mason 1984). Thus, younger CEOs are positively related to executives' propensity to foster firm growth and initiate change. Additionally, older CEOs who are more conservative normally choose a less risky approach than younger CEO. Therefore, firms managed by older CEOs are less likely to have initiate change and foster firm growth.

Practically, it is difficult for firms to replace aged CEOs. Jensen and Murphy (1990) stated that it is harder to replace older CEOs in their position because they are waiting to retire. Hence, shareholders generally put in a retirement policy in order to dismiss incompetent and aged CEOs (Fredrickson, Hambrick, and Baumrin, 1988). Nevertheless, a retirement policy seems to reveal only a weak relationship between CEO age and CEO turnover. In fact, the probability of management turnover grows and is very high among managers aged between 60 and 65 years of age. The reason for management turnover here is mainly a manager's retirement and not company performance (Coates and Kraakman, 2010). It is impossible to ignore that one potential and natural reason of CEO turnover is retirement. Starting from this point of view, the question is raised that there is a correlation between CEO age and forced CEO departure. Indeed, Murphy and Zimmerman (1993) found a significant correlation of CEO turnover and CEO age. In practice, retirement occurs at different ages, thus, it opens a question to investigate the likelihood that CEO turnover will increase once the

CEO reaches a certain age. Indeed, this has proven to be the case in studies that control for this effect.

According to Warner, Watts and Wruck (1988), the median age of dismissed CEOs who are reported by the firm to be retiring is 65.4 years. Meanwhile, CEOs who are replaced without retirement announcement have a median age of 59 years. These differences are significant and imply firms on average are truthful in retirement announcements. Also, younger CEOs are more likely to be dismissed. These findings lead to the justification which is that firms might find it less costly to retain a poorly performing CEO who is near retirement than to force the resignation. Besides, Parrino (1997) confirms that the likelihood of forced retirement of CEOs increases when CEOs are older than 64 years. In addition, the median age and tenure of CEOs following voluntary turnover are 64 years old and 7.4 years. Meanwhile, the median age of a CEO being fired is 55 years with a median tenure of 5.1 years. This difference possibly explains that the distinction in ages of forced and voluntary turnovers is that the younger CEOs seem not qualified following their first appointment. These findings are confirmed by the studies of Coates and Kraakman (2010) in analysing 500 S&P companies. Likewise, Murphy (1999) finds a 30% increase in the probability of experiencing turnover if a CEO is over the age of 64 compared to if he is younger. Moreover, Jensen and Murphy (1990) confirmed that the possibility of CEO turnover as a result of poor company performance increases among younger managers.

Furthermore, Huson et al. (2004) find that having a CEO above the age of 60 has a significantly positive effect on the probability that the firm experiences turnover. In detail, chronological age was highly significant, and negatively correlated to forced replacement, as is CEO membership in one of the firm's founding families, while poor performance is positively related to forced replacement. Similarly, Fisman, et al. (2005), by using a two-stage model to predict CEO dismissals, reported that firms exhibit superior performance when CEOs who performed poorly in the past are retained by entrenched boards. In this case, the boards have powers to ignore the pressure of shareholders to terminate the CEOs.

### 2.2.3.2. *CEO ownership*

The effect of CEO ownership on executive turnover has opened a controversial question as to whether it has a negative correlation to the likelihood of the dismissal of a CEO. In fact, the separation of ownership and management of the firm creates potential conflicts of interest between CEO and shareholders. Many corporations have tried to solve these potential conflicts by appointing a CEO who holds their shares. In the situation when CEOs have a significant ownership, the concern is that CEOs are more likely to act like shareholders and attempt to maximize firm value (Core et al., 1999). When CEOs are themselves shareholders, it is argued that the potential for shareholder-manager goal congruence could be improved and agency cost would be reduced. Hence, it is able to consider that CEO shareholding negatively correlated to CEO turnover (Denis, Denis, and Sarin, 1997). Similarly, Dahya, Lonie and Power (1998) point out that a CEO holding firm shares may lead to a better performance. Thus, the disciplinary action is less likely to be used. However, there is an opposite view on CEO ownership which is that equity ownership can insulate the CEO from the internal monitoring efforts by increasing her/his power. By holding high level of ownership, CEOs are able to entrench themselves and to reduce the threat of dismissal when they have poor performing. Therefore, the removal of CEO decision seems to be difficult when CEO ownership increases. As a result, CEOs may engage in excessive self-serving behaviour and are less likely to support any moves to dismiss themselves (Morck, Shleifer, and Vishny, 1988). Furthermore, it will be more costly to remove CEOs for the acquiring firms.

The negative effect of ownership on the CEO turnover also has been found in studies by Denis, Denis, and Sarin (1997) of US takeovers and Brunello et al. (2003) on the Italy takeover market. In detail, Denis, et al., (1997) found that turnover was more sensitive to performance when an outside blockholder held 5+% of a firm's shares, and less sensitive to performance when managers and directors held a stake of 5+%. Moreover, Denis, Denis and Sarin (1997) presented a substantial drop in the rate of non-routine CEO turnover for managerial ownership levels in excess of 10% of equity. The analysis of this research reveals that CEO turnover is inversely correlated to performance of the firm where the executive owns less than 1% of the firm's common stock. Nevertheless,

this relationship becomes insignificant at higher levels of managerial ownership (Dedman, 2003). Meanwhile, Dahya, Lonie and Power (1998) who researched in the UK found that non-routine CEO turnover is less common in firms with large ownership belonging to managers than in firms where CEO ownership is less than 1%. Along with this finding, there is no incidence of a force-fired CEO where the manager's stake exceeds 10% of equity. Consistently, Weisbach (1988) found that CEO ownership has no significant impact on the probability of employment termination of CEOs. Differently, Gilson (1989) suggesting that equity ownership is unable to insulate executive officers of US firms when performance is sufficiently poor. As a result, the finding of this study is that the dismissed CEO held more than 10% of the firm's common stock in 6% of cases (Dedman, 2003).

Related to the discussion above, many studies have revealed the increased risk of managerial entrenchment when high levels of CEO ownership are found to result in undesirably strong security of tenure for CEOs (Morck, Shleifer, and Vishny, 1988; 1989). Besides, the higher the percentage of equity CEO owned, the lower the likelihood that managers will be dismissed. Hence, high levels of managerial ownership are also found to diminish the sensitivity between turnover and performance (Denis and Denis, 1994, 1995; Kang and Shivdasani, 1995). Furthermore, Ertugrul and Krishnan (2011) stated that CEO ownership in the firm is negatively related to the propensity to dismiss the CEO early. CEOs who have high ownership are able to keep the information of their performance from the board. Thus, boards are more likely to obtain information about CEO quality from the market and dismiss the CEO later (Ertugrul and Krishnan, 2011).

#### **2.2.3.3. CEO tenure**

Theoretically, CEO tenure seems also to have a role as a proxy for management entrenchment (Morck, Shleifer, and Vishny, 1988). As a result, the shareholders and the board of firms with long-serving CEOs seem to have the perception that the CEOs are irreplaceable. Indeed, the perception is possible to explain based on matching theory (Jovanovic, 1979a; b). Implying matching theory, Jovanovic (1984) pointed out that CEOs with bad matches to firms is earlier to be dismissed than others with good

matches. Therefore, the probability of CEO dismissal would increase when there is a bad match between a firm and its CEO. Meanwhile, CEOs in good matches would have a longer tenure since it is difficult to find a better match to replace the CEOs (Brookman and Thistle, 2009).

Indeed, there are studies which have examined the implication of the theory. For example, Allgood and Farrell (2003) documented that the hazard function for both forced and unforced CEO turnover peaks at about five years then decreases. Additional finding of this study is that good matches (lasting more than 3 years) have better firm performance than bad matches. Together with this study, Brookman and Thistle (2009) use hazard function to test for the likelihood of CEO turnover and to determine when threat of dismissal decreases. By using survival analysis, this study represents that the threat of dismissal increase for CEOs having over thirteen years and it decrease slightly after. However, only 18% of CEOs have tenure over thirteen years. Along with this, they also find that CEO tenure has a positive correlation to compensation and performance and negative relation with the board monitoring. Besides, the finding consists with match theory, which is found in the study of Allgood and Farrell (2000). By examining CEO turnover through match theory, it reveals that CEO turnover increases until the fifth year of a CEO's tenure. In detail, CEOs who have 4-10 years of tenure are less likely to be fired than are CEOs having 1-3 years of tenure. Moreover, the possibility of dismissal is decreased when CEOs are being in position over 10 years (Coates and Kraakman, 2010). However, Allgood and Farrell (2003) also found a consistent interaction between firm performance and the tenure-turnover relationship by focusing exclusively on non-deal-related turnover.

Prior studies usually centre on the length of CEO tenure rather than on CEO turnover. For instance, CEOs of owner-controlled firms were found to have tenures three times as long as those of managers of other firms (Sponholtz, 2006). Besides, arguments of the effects of CEO tenure on CEO turnover have been raised. According to Denis, Denis, and Sarin (1997), there is no statistically significant correlation between the possibility of CEO turnover and tenure. In another research, Kim (1996) finds that turnover is less likely in the first years as CEO and after 10 years of tenure as CEO after controlling for firm performance and age. Hence, it is assumed that CEOs with longer tenure is not

associated with effective corporate governance. However, since CEO age is not controlled for, it seems likely that this result rejects the positive association between voluntary turnover and CEO tenure found in Allgood and Farrell (2003). In contrast, there are evidences which show the correlation between CEO turnover and executives' tenure. Goyal and Park (2002) demonstrate that CEO tenure is inversely correlated to the likelihood of CEO turnover. Meanwhile, Lausten (2002) finds a positive association between tenure and CEO turnover.

Previous research about CEO tenure found positive effects of CEO power on tenure. It is revealed that the more power a CEO has, the longer her/his tenure (Allen and Panian, 1982; Hambrick and Fukutomi, 1991; Ocasio, 1994). It is not hard to imagine a close connection between CEO power and the tenure. Hermalin and Weisbach (1998) stated that the negotiating power of a CEO increases with tenure because the board member selection is influenced by the CEO. Thus, it is resulted in less diligent monitoring by the board (Brookman and Thistle, 2009). Besides, power enables CEOs not only to increase support for them, but also to reject threats to replace them. Thus, replacements of CEOs are least likely to take place when CEO power is institutionalized (Hambrick and Fukutomi, 1991). This implies that CEOs with longer tenure will have a lower threat of dismissal. Additionally, Ocasio (1994) found that deinstitutionalization of CEO power can be triggered by dynamic changes in organisational environment, which also leads to CEO turnover.

#### **2.2.3.4. *CEO gender and education***

CEO gender and education, which are two characteristics of CEO, have received little attention in researching CEO turnover. However, some work has paid attention to those characteristics. For example, CEO skills or education have been considered in the inputs that the board of directors use to choose the new CEO. According to Kaplan et al. (2008), leadership, interpersonal and motivational skills are considered by firms in searching for new CEOs. Similarly, Eisfeldt et al. (2010) indicated that firms attempt to find CEOs, who are better match with the firms, based on particular skills and characteristics. Further, they found that the decision of CEO dismissal related to firm performance regarding the required skills of CEOs in the industry of the firms. In

addition, focusing deeply on the correlation of CEO education with CEO turnover, Bhagat, Bolton and Subramanian (2010) attempted to describe the role of CEO education in making decision CEO dismissal and in choosing a new CEO. This study has taken a sample of over 2,600 CEO turnovers and more than 14,500 CEO-years from 1993-2007, and has measured the level of CEO education by the attendance of CEO in Top-20 undergraduate school or holding MBA certification or Top-20 program law degrees. Then, findings reveal that CEO education plays a vital role in the choosing of replacement CEOs. Moreover, there is a strong positive relationship between the dismissed CEO and the education level of new CEOs, although the decision of a firm in replacing its current CEO has less influenced by the level of education levels (Bhagat, Bolton and Subramanian, 2010).

Similar to CEO education, the influence of gender on CEO replacement has received comparatively little evidence. Becker-Blease, Susan and Stater (2010) examine the conditions and frequency of CEO turnover from S&P 1500 firms and find that female CEOs are more likely to leave their employment involuntarily and voluntarily in controlling for firm performance, executive human capital and governance characteristics. This finding is consistent with the study of Stroh et al. (1996) and is in opposite direction with the study Lyness and Judiesch (2001) regarding the frequency of female voluntary departure. Furthermore, Becker-Blease, Susan and Stater (2010) found that females are more likely than males to be replaced when the number of male directors on boards increases. An addition finding is that females are less likely than males to depart voluntarily when board size decreases or firm size increases. Meanwhile, focusing on the turnover differences in sexes at a variety of organisational rank, Elvira and Cohen (2001) found that the number of managers in the firm who are female has no influence on the replacement of female CEOs. Consequently, it seems to present that no evidence support to the relationship between involuntary replacements and gender (Becker-Blease, Susan and Stater, 2010).

#### **2.2.4. Industry Characteristics**

In fact, characteristics of an industry could create different conditions and business environment to other industries. Therefore, industry characteristics somehow have



influences on CEO turnover. Based on this point of view, performance and stage of industry, and competition in the industry are undertaken to reveal their effects on CEO turnover.

#### ***2.2.4.1. Industry performance and industry stage***

According to Eisfeldt, Camelia and Kuhnen (2010), the previous studies on CEO turnover document that CEOs are more likely to be terminated from their job if their performance is poor relative to the industry average. Nevertheless, the empirical evidence represents that when overall industry performance is poor the probability of CEO dismissal is also high, even after accounting for the effect of relative performance. Conversely, the CEO may be retained conditionally with poor relative performance even though the industry is doing well. In order to explain this result, Jenter and Kanaan (2010) stated that this puzzling result comes from the perspective of the theoretical literature on relative performance evaluation. Based on this evaluation, Holmstrom (1982) and Gibbons and Murphy (1990) suggest that industry, exogenous and shocks should be filtered out of the dismissal of CEO decision.

Jenter and Kanaan (2010) reported that the probability of CEO dismissal increases after bad market and bad industry performance. However, another finding of this study argues that evaluation of relative performance cannot be the sole factor which influences CEO turnover. Hence, there are two possible explanations for these findings consistent with the empirical results. First, the performance of firms in bad times may relatively reflect CEO ability than performance in good times. Second, boards of firms may blame or credit poorly performance CEO with regard to the external influence beyond their control, and commit systematic attribution to errors (Coates and Kraakman, 2010). Thus, it leads to the dismissal decision to be complicated when it is based on the correlation to industry performance.

#### ***2.2.4.2. Industry Competition***

In general, the effects of industry conditions on CEO turnover have little supporting evidence from the literature. Eisfeldt et al. (2010) explain the reason might be that the empirical studies on CEO turnover have focused on the role of boards in monitoring

CEOs and firms as well as their effectiveness in this role. Indeed, there are several studies which have attempted to evaluate the impact of industry conditions on CEO turnover. Parrino (1997) argues that performance measures are more precise and intra-industry CEO appointments are less costly in homogeneous industries. Along with the argument, this study's result reveals that the industry homogeneity increases the probability of forced replacements and an intra-industry appointment. For example, firms operating in or relating to homogenous industries, such as mining and air transportation firms, seem to experience greater frequency of CEO turnover (Parrino 1997). As a result, corporate boards more easily recognise poorly performing CEOs since other firms in the same industry provide more reliable measures of firm performance and managerial ability of other firms' CEOs. Practically, a board of directors not only looks at the prior performance of the firm to set its expectations, it also incorporates the performance of competing firms (Morck, Shleifer, and Vishny, 1989). Thus, in industries, which have a wide variation in performance levels, boards of firms would conclude that the CEO responds to major effect, and the low performing CEO is likely to be dismissed. In contrast, in firms in multi-industries, board members are required more superior in management in order to judge CEO performance, and they seldom dismiss CEOs (Fredrickson, Hambrick, and Baumrin, 1988; Meindl and Ehrlich, 1985). Consequently, when the performance of a firm is appreciably under the average performance of several competitors, the board will replace the CEO more.

Indeed, firm which are in high competition industries, consisting of large numbers of homogeneous firms, may have more choice of candidates for CEO. As a result, low competition industries have a smaller amount of appropriate CEO candidates than high competition industries. Based on this statement, DeFond and Park (1999) stated that a board of directors often view the current CEO of its firm as dispensable because alternative candidates are readily available in a high competition industry. In addition, DeFond and Park (1999) document that using relative performance evaluation, boards of directors are able to improve their ability to identify poorly performing CEOs. Also, firms in industry competition seem to enhance the usefulness of relative performance evaluation. In contrast with the result of the majority of empirical studies, the outcome of this study confirms that the rate of CEO replacement is smaller in less competitive industries than in highly competitive industries. Especially, CEO replacement in low

competition industries are less closely correlated to accounting-based performance measures than in high competition industries. Therefore, it seems to reveal that in a unique industry, the level of competition and industry conditions do have effects on the dismissal CEO decision.

### **2.3. CEO TURNOVER IN TRANSITION COUNTRIES**

Summarising the existing evidence, Chi and Wang (2009) document that CEO turnover is widely researched in Western countries, especially in developed countries. In regard to Djankov and Murrell (2002), research on CEO turnover is an attempt to improve enterprise performance in Western countries. However, corporate governance in transition and emerging economies is still underdeveloped. Therefore, there is an unclear picture of CEO turnover compared to developed countries. Practically, the characteristics of transition and emerging economies, which are the intervention of the state, underdeveloped financial market, and lacks of the protection of the property rights, might lead to a weak CEO turnover-performance link or ignore the relation (Muravyev, 2003b; Muravyev et al., 2009). Therefore, in this section, this paper is going to present studies of CEO turnover in transition countries. Indeed, most of those studies focused on the link between firm performance and CEO turnover, along with the effects of transition progress such as ownership structure in those countries' enterprises, state ownership, political connection and privatization.

#### **2.3.1. Firm performance and CEO turnover**

It is considered that China is one of the transition and emerging economies. Along with the development of economics, Cao et al. (2011) document that there are several studies which have examined CEO turnover and its correlation to firm performance in China (Groves et al., 1995; Aivazian et al., 2005; Fan et al., 2007; Cheng et al., 2008; Chang and Wong, 2009). An early study on CEO turnover was undertaken by Groves et al. (1995). This study, which has taken a sample consisting of over 760 SOEs during the period of 1980–1989, found that the reform of the Chinese economy led to the stronger sensitivity of the CEO turnover-performance link in SOEs. Thus, CEOs could be and were fired in response to poor performance (Chi and Wang, 2009). In contrast, Chang and Long (2004), studying CEO dismissal in China in the period from 1995 and 2000,

report that even though some evidence reveal the inverse relationship between CEO dismissal and earning measures, there is no evidence of a correlation between stock returns and CEO turnover. Similarly, Aivazian et al. (2005) have used the sample of over 430 SOEs during the period of 1994–1999 and found that incorporation of SOEs strengthens the link between CEO turnover and firm performance. Moreover, the sensitivity of CEO turnover to firm performance is greater in incorporated SOEs than in those never incorporated.

Other contemporary studies also focus on CEO turnover. Chen et al. (2005) although indirectly revealing the relationship of CEO turnover with firm performance in researching Chinese firms from 1999 to 2003, the study confirm the vital role of corporate governance on CEO replacement by finding a significant increase of CEO turnover following China Securities Regulatory Commission enforcement action. Besides, Kato and Long (2006) analyse 638 Chinese-listed companies with 2181 firm-year observations between 1999 and 2002 and report that CEO turnover is more sensitive to stock returns in both state controlled enterprises and private enterprises. This study also presents a negative relationship of CEO turnover with firm's financial performance. Likewise, Conyon and He (2008) confirm the prior studies that CEOs and chairman who have poor performance are more likely to be dismissed by examining 1,200 Chinese-listed firm during 1999–2006. Consistent with the agency model, this study also reveals that the turnover of both types of top official is inversely related to a firm's profitability. Furthermore, confirming the finding of previous studies both in Western countries and China, Hu and Leung (2010), by using a sample of 916 Chinese-listed SOEs during the period of 2001-2005, report that the probability of CEO dismissal is inversely correlated to performance of SOEs.

With regard to other transition countries, Gibson (2003) examines the correlation between firm performance and CEO replacement by using a sample of over 1,000 firms in eight emerging countries, which include Thailand, Taiwan, Malaysia, Mexico, Korea, India, Chile, and Brazil. The finding reveals that the possibility of CEO replacement increases along with the poor performance of firms. It also demonstrates that corporate governance in these markets is not ineffective. Those findings confirmed by Lin and Liu. (2004). Together, the evidence of the correlation between CEO turnover and firm

performance is found in the study of Eriksson (2005) which examined CEO turnover in Slovakia and the Czech. Examining CEO turnover in Czech firms, Fidrmuc and Fidrmuc (2007) also found the similar correlation as Eriksson (2005). However, the correlation is clear after three to four years of privatisation. Furthermore, Muravyev et al. (2009) examined joint stock enterprises in the Ukraine during 2002-2006, and found a statistically strong and inverse correlation between the probability of CEO turnover and previous performance. Particularly, they examined return on assets and return on sales to measure performance of firms. Meanwhile, size of the supervisory board and ownership of managers have little influence on the link between CEO turnover and firm performance.

Reviewing the research on CEO turnover in Russia, Abe and Iwasaki (2010) stated that firm performance plays a role as a trigger of CEO dismissal. However, the majority of studies provide unclear evidence that firm performance impacts the likelihood of CEO dismissal. For instance, Kapelyushnikov (2001) and Dolgopyatova and Kuznetsov (2004) point out that there is an extremely limited relationship between CEO turnover and firm performance. Moreover, some evidence denied a significant correspondence (Goltsman, 2000; Yasin, 2004). Particularly, Rachinsky (2002) examined 110 listed companies and presented support to these mainstream views through this exhaustive event study. In accordance to this study, the proportion of CEO replacements during the period of 1997-2001 is only 19.5%. The reason for the changes in CEO position is resignation to take responsibility for the worsening of their business result. Indeed, the percentage of the CEO turnover is much lower than the changes in CEO position following non-managerial reasons. Particularly, the non-managerial changes account for 51.3% in total. It includes changes following career changes, age-limit retirements, and internal changes. Also, managerial reasons caused less change than other reasons (24.8% in total) which are takeover and social conflicts. Based on the findings above, it can be assessed that CEO changes are less sensitive to the performance of firms in Russia. Moreover, it is hard to dismiss the CEO who is responsible for poor performance, even when the firm is listed (Rachinsky, 2005).

Contrastingly, Muravyev (2003a) and Kapelyushnikov and Demina (2005), report that poor firm performance is positively correlated to CEO turnover. In detail, Muravyev

(2003a), who analysed 437 Russian firms regressed CEO turnover on industry-adjusted labour productivity during January 1999 to May 2000, and found the relationship between turnover frequency and previous performance after controlling for board composition, ownership structure, size of firms and other factors. Meanwhile, Kapelyushnikov and Demina (2005) is the most recent study on managerial turnover in Russia. As a result, a larger dataset is gathered by including many unlisted firms and ex-SOEs. This study provided evidence supporting the correlation of CEO turnover to performance of firms. Besides, the correlation has become a usual governance practice in contemporary Russia. However, those studies are still in the minority, even though they represent a clear statement that poor performance correlates to the increase of the likelihood of CEO turnover. Regarding the study of Abe and Iwasaki (2010), the insignificant relationship between CEO turnover and bad performance in the prior studies is possibly explained by using the assumption that there is the same manner of managerial replacement between Russian and US firms and ignoring the collective nature of the corporate governance system in Russian firms especially in the ex-socialist firms.

### **2.3.2. Ownership structure and CEO turnover**

In regard to the reforming progress in transition countries, privatisation is one of the methods which create differences in ownership structure in those countries' enterprises. Generally, there is an economic argument that government ownership is less efficient than private ownership. Based on the argument, SOEs in transition countries have been privatising in order to revitalise these enterprises. However, selling government ownership to private hands does not necessarily improve the efficiency of the privatised enterprises. As a result, the world's experience in privatisation suggests that the economic consequences are more complex (Brown et al., 2006). Besides, Barberis et al. (1996) and Gibson (2003) pointed out that the manner in which non-state ownerships improve the efficiency of privatised enterprises is not exactly clear. In accordance with Abe and Iwasaki (2007), prior studies of transitional economies have focused on the role of different kinds of private shareholders such as investment funds, foreign shareholders, and managers.

In accordance with Lin and Liu (2004), the discipline of CEO is stronger in Taiwan firms when there are the presence of outside shareholders which are institutions and individuals. Besides, several studies of Chinese-listed enterprises examine the different influences of state ownership and other large non-state ownership, such as Xu and Wang (1999), Sun et al. (2002). Nevertheless, these studies fail to reveal the differences among different types of state ownership (Chi and Wang, 2009). Meanwhile, there are comparatively few studies on the effects of ownership structure on CEO turnover as well as how it influences the sensitivity of the correlation between firm performance and CEO turnover in transition countries, especially compared with the large number of literature undertaken in developed countries (Kato and Long, 2006; Chi and Wang, 2009). With regard to other transition countries, Gibson (2003), by analysing emerging markets, indicates that the existence of a large private shareholder, who is domestic shareholders, is unable to improve corporate governance.

Although empirical results are mixed, many financial economists confirm the strong influence of the governance mechanism and performance of firms on managerial turnover in developed countries. Empirical evidence does exist concerning the close relation between managerial turnover and ownership structure in Russia. For example, several studies documented the critical influences of ownership structure on managerial renewal (Frydman, Pistor, and Rapaczynski, 1996; Filatotchev, Wright, and Bleaney, 1999; Filatotchev et al., 1999; Bevan et al., 2001). Particularly, Abe and Iwasaki (2010) reported that the common finding of those studies reveals that outside shareholding is statistically and highly positive associated with the frequency of CEO turnover.

Additionally, using a pooled cross-section data of over 630 Chinese-listed firms during the period of 1998-2002, Kato and Long (2006b) found an inverse relationship between CEO dismissal and performance of firms, measured either as return on assets or shareholder returns. Along with this finding, the influences of the private control of firms, ownership concentration and board governance on CEO dismissal are also found. Especially, the link between CEO dismissal and firm performance is weaker for listed firms controlled by the state and is stronger for firms with a majority of shareholders. Moreover, in firms having a higher number of outside directors, the CEO turnover-performance sensitivity is more negative. Together, Firth et al. (2006), by investigating

CEO dismissal in Chinese firms during the period of 1998-2002, document a modest influence for majority shareholding but not for the existence of independent directors. Furthermore, Conyon and He (2008), using a sample of 1200 Chinese firms during 1999-2006, attempt to find out whether in firms, which have a major controlling shareholder or are privately controlled, the sensitivity of the link between CEO turnover and firm performance is higher. The result confirms that in these firms, the sensitivity of CEO turnover to poor performance is higher. Furthermore, they found that the sensitivity of CEO turnover-performance is also stronger in firms having a higher percentage of independent board directors. Those findings contribute to prior findings on CEO turnover in China (Chang et al. 2004; Chen et al. 2005; Kato and Long, 2006a, 2006b; Firth et al. 2006).

Similarly, Chi and Wang (2009) demonstrate that the link between CEO turnover and firm performance is curvilinear in ownership concentration, but that this correlation moves in opposite directions under private and state ownership. Furthermore, using a sample of Chinese firms' CEO turnovers in a short period from 2000 to 2003, Cheng et al. (2008) disaggregate firms' net-earnings into core, recurring non-core, and other non-recurring components. By analysing these earnings components, the result shows that the decisions of CEO dismissal in SOEs are only related inversely to recurring earnings which consist of administrative, operating and financial expenses. Besides, leverage also plays a significant role suggesting the concern that high debt levels may reduce the impacts of the Chinese SOE reforms. Nonetheless, turnovers in private firms are associated with poor core earnings, a result similar with profit maximizing firms in developed economies.

Regarding the studies in Russia, Muravyev (2003a), who analysed over 400 privatised firms in Russia in order to examine the indicator of CEO turnover, found that higher rates of CEO turnover are associated with financial constraints, control changes, smaller size of corporate boards, and outside shareholding. Similar findings are also found by Kapelyushnikov and Demina (2005). They document that there are three main CEO turnover determinants in Russia, which are financial performance, control changes, and ownership structure. Moreover, analysing over 820 firms of the Russian Federation, Abe and Iwasaki (2007) indicated that CEO dismissal in Russian enterprises is



influenced by the presence of foreign investor or a dominant shareholder. Together, they found that the large shareholding may also play a significant role to inspire dominant shareholders to conduct intensive monitoring over management activities in companies they own. Not simply removing company presidents in response to poor management outcomes, dominant shareholders may also utilize human capital in their companies more effectively than do minority shareholders, including foreign investors.

### **2.3.3. State ownership and CEO turnover**

In general, most transition countries are reforming from the planned economy to market economy such as Russia, China, Ukraine, Czech Republic, etc. Especially, the transition in China is unique. Indeed, Chang and Wong (2009) reported that the existing literature (e.g. Fredrickson et al., 1988; Shen and Cannella, 2002; Gibelman and Gelman, 2002) suggests that other factors, which are social and political factors, also have a vital role in the decision-making of managerial dismissal in private firms. However, the influence of state ownership on CEO turnover is still unclear. Besides, the large number of SOEs and large proportion of share belonging to government in listed firms, including listed SOEs, attract researchers to investigate the influence of different types of state shareholdings on corporate governance rather than to compare difference between state and private ownerships.

In fact, Sun and Tong (2003) evaluated the changes in performance of 634 SOEs listed in Shenzhen and Shanghai stock exchanges during the period 1994-1998 and found a negative influence of state ownership on performance. Nevertheless, the relationship is not significant at the level of 10%. Besides, Firth et al. (2006) analysed over 2800 firm-year observations of Chinese-listed firms between 1998 and 2002 and document that chairman dismissal in the firms controlled by the state is less sensitive to performance than in those controlled by legal entities. The influence of foreign ownership on either turnover or the sensitivity of the link between firm performance and turnover is insignificant. Moreover, Shen and Lin (2009) found that state shareholding negatively impact on CEO turnover when profitability is below target. However, there is no impact of state ownership on CEO turnover when profitability is above target. In order to distinguish the relationship between CEO turnover and different types of shareholders,

Chi and Wang (2009) classified ownership by the types of shareholder and ownership concentration. Within this framework, the most important finding of this study is that the sensitivity of CEO turnover to performance is stronger in non-state firms than in state-controlled firms, and is affected by different subtypes of private ownership. The finding is associated with the result of previous studies using Chinese data that state ownership, especially direct government ownership, is consistent with weaker disciplining of managers, which confirms the prediction of the agency theory (Groves et al., 1995; Aivazian et al., 2005; Firth et al., 2006).

Besides, Wang (2010) took a sample of over 840 changes of CEO in Chinese firms during 2000-2005, in order to compare the relative effectiveness of the Chinese government attempting to improve the monitoring of listed firms. Particularly, the Chinese government has tried to strengthen corporate governance via statutory guidelines and regulations and has been shifting the state ownership from government agencies (GAs) to the corporate form of SOEs. The results exhibiting the association between firm performance and CEO turnover vary among different types of shareholders. In detail, the sensitivity of CEO turnover to poor firm performance in firms controlled by GAs is lower than in those controlled by SOEs and large private enterprises. Nevertheless, the presence of corporate governance mechanisms seems not to impact the CEO turnover-performance sensitivity. Similarly, Hu and Leung (2010) report that the negative correlation between CEO turnover and firm performance is stronger when the SOE is held by a local government, or directly held by the Central Government, or in a strategic/regulated industry. These findings reveal that poorly performance CEOs in Chinese SOEs are dismissed following the implementation of market-based mechanism into corporate governance. Furthermore, the findings support that government control enables on to strengthen rather than weakens the governance mechanism and the link between CEO turnover and firm performance. However, it represents the argument with other studies such as Groves et al. (1995), Aivazian et al. (2005) and Firth et al. (2006) which indicate that state ownership weaken the sensitivity of the relationship between firm performance and CEO turnover.

In addition, Chang and Wong (2009) consider state shareholders as shareholders who hold multiple objectives in order to investigate the relationship between firm

performance and CEO turnover. Particularly, state shareholders are unlike the shareholders of typical listed firms and are not real owners. They seem to be bureaucrats running the firms on behalf of the government. Therefore, the influence and control of government on the CEO's decision are implied via the agents. Further, the influenced decision would be seeking to promote social and political objectives by using the firm's resources (Shleifer and Vishny, 1994; Bai et al., 2000; Chang and Wong, 2004; Bai et al., 2006). Furthermore, the similar problem following agency theory could arise, since the agents would possess multiple self-interests, such as job security, the accumulation of personal wealth, and others (Shleifer and Vishny, 1997).

Based on a sample on CEO turnovers from listed Chinese firms during 1995-2001, Chang and Wong (2009) provide two evidences on the link between firm performance and CEO turnover. First, pre-turnover profitability significantly correlates to CEO turnover when financial losses occur in firms. However, the correlation disappears in observing firms in which performance is making profits. The second finding shows that profitability is significantly improved in the post-turnover period in loss-making firms, but not in that of profit-making firms. Importantly, Chi and Wang (2009) point out that, although the state shareholder may pursue multiple objectives, the government is still putting pressure on SOEs in order to improve financial performance. Thus, it is argued that CEOs in SOEs still have the probability of dismissal by state shareholders under all circumstances (Chang and Wong, 2009).

On the other hand, the pressure from government on state shareholders is more likely to increase when SOEs are experiencing financial losses (Chang and Wong, 2009). As a result, Qian and Roland (1998) explained that loss-making firms are eventually bailed out by the provision of low-cost loans and/or fiscal subsidies from government. Thus, the shareholders of loss-making firms in this situation have to pursue the government's objective in order to reduce the threat of dismissal in case they are failure to reach this objective. Therefore, it reveals the complicated picture in SOEs which have many objectives influenced by government.

#### 2.3.4. Political connection and CEO turnover

Unlike developed countries, the majority of enterprises in developing countries is SOEs. Hence, the connection between those enterprises and the state is still a matter of concern. Practically, studies of the impacts of political connection in transition countries are mostly in China. As a result, China has the largest number of SOEs in the world. Moreover, political connection is a common phenomenon because, even though the corporatisation and privatisation of SOEs since 1978 has resulted somewhat in the decentralisation of authority, the state shareholder still controls personnel decisions. Most particularly, either the central or local government has authority over the selection, appointment, and dismissal of CEOs in SOEs. Although privately controlled firms, if converted from former SOEs, are likely to build political connections or maintain previous connections, because they provide preferential access to financial resources like loans and help companies to avoid strict regulatory oversight (Dinc, 2005; Faccio et al., 2006; Claessens et al., 2008). As China is also a transitional economy with weak law enforcement and institutional constraints, many Chinese enterprises are involved with the state, operate with low efficiency (Wei et al., 2005), and have poor corporate governance (Firth et al., 2006). Hence, these show that the linkage between performance and CEO turnover still depends on the governance structure and environment.

Indeed, the function of political connection provides two different aspects, which are the benefits of political connection and the costs of related rent seeking activities (Cao et al., 2011). In accordance with Faccio et al. (2006), Claessens et al. (2008), Chen et al. (2011), political connection can help firms by relaxing tax regulation, enabling preferential corporate bailouts and/or financing convenience, and facilitating rent seeking. Those benefits also bring a positive effect on firm value and performance. In contrast, other studies argue that politically connected firms must devote important resources to their rent seeking activities, which might reduce the advantages of the political connection (Fan et al., 2007; Faccio, 2010). These authors view political connection as government intervention and a desire to satisfy the objectives of social services. For example, Bai et al. (2000), Chang and Wong (2004), and Bai et al. (2006) state that the pursuit of personal and/or political objectives normally lessens the profit of

the firm, since state shareholders seem not have strong incentives to maximise financial performance.

In researching the effects of political connection on corporate governance, Cao et al. (2011) found that political connection can hurt corporate governance by aggravating CEOs entrenchment. Indeed, they document that the CEO's political connection lowers the likelihood of forced CEO turnover by about 20% on average in Chinese-listed firms. Meanwhile, the probability of forced CEO turnover in privately controlled firms is stronger. Political connection also significantly lowers the sensitivity between CEO turnover and firm performance, thereby weakening disciplinary mechanism to replace poorly performing CEOs. Following forced CEO turnover in the presence of political connection, firm performance improves. These findings provide strong evidence that political connection does indeed lead to undesirable managerial entrenchment. Together with this study, You and Du (2012), who examined a large number of Chinese-listed firms in the period 2005-2008, reported that CEOs who have political connection are less likely to be dismissed than others. Besides, the sensitivity of firm performance and forced CEO turnover is weakened by political connections of CEOs. Consequently, it reveals that political resources and connection have been used by CEOs in transition countries as excuses for their poor performance. Based on this excuse, CEOs are able to reduce the probability of dismissal.

In another point of view, Liao et al. (2009) investigate the effects of policy burdens on CEO turnover in order to reveal another aspect of the effects of political connection on CEO turnover as well as corporate governance in Chinese SOEs. In fact, SOEs incur losses from bearing policy burdens. Actually, substantial policy burdens are normally tended to bear in Chinese SOEs. For instance, the average labour redundancy of Chinese SOEs was 23.5% during the period of 1993-1996 (Li and Xu, 2001). In addition, the labour redundancy was even higher, about 44% was reported by Dong and Putterman (2003) during the period of 1991-1994. However, the information asymmetry between SOE's CEO and the government makes the evaluation of SOEs' performance more difficult. The government is hardly able to distinguish accurately between operational losses and policy-induced losses. Therefore, the policy burdens can be used as an excuse for poor firm performance. Even if the losses are due to managerial

discretion, excuses are able to make the State accountable for these losses, (Lin et al., 1998). Particularly, if CEOs have a good political connection they could hide or provide information imperfectly to the State. Thus, when the government has to consider both types of losses in evaluating the performance of CEOs and managers, it could reduce the CEO turnover–firm performance sensitivity. However, the government is able to better distinguish losses incurred by managerial discretion from the policy-induced losses, if information is less asymmetrical. In the case, the CEO turnover–firm performance sensitivity is less likely to be reduced under the influence of the policy burdens.

#### **2.4. SUMMARY**

In summarising, CEO turnover reveals an important role on corporations' governance system. In fact, empirical studies have provided voluminous literature in order to document the factors influencing CEO turnover. Most studies point out that firm performance is the first determinant of CEO turnover. As a result, the correlation between CEO dismissal and firm performance is a good way of evaluating the effectiveness of the corporate governance of firms. The inverse relationship of CEO dismissal with performance reflects an efficient incentive mechanism in which CEOs are terminated as a result of poor performance. Indeed, it is widely debated in the literature (Weisbach, 1988; Banker and Datar, 1989; Holmstrom and Milgrom, 1991; Murphy and Zimmerman, 1993; Engel et al., 2003; Bushman et al., 2004). Besides, it shows that forced turnover is preceded by poor performance in the studies undertaken in all developed countries such as the U.K. (Conyon and Florou, 2002), the U.S. (Huson et al., 2001), Japan (Kaplan, 1994a), and Germany (Kaplan, 1994b).

In addition, the previous studies suggest that forced CEO turnover is significantly and inversely correlated to firm accounting performance (Coughlan and Schmidt, 1985; Weisbach, 1988; Morck, Shleifer and Vishny, 1989; Kaplan, 1994; Brickley, 2003). Meanwhile, several studies indicate that CEO dismissal is associated with positive abnormal stock performance (Dennis and Dennis 1995; Kaplan and Minton, 2006; Nguyen-Dang, 2009). Similarly, there are evidences which show that CEO turnover has correlation with shareholder value and stock returns (e.g. Coughlan and Schmidt, 1985;

Fee and Hadlock, 2000; Warner et al., 1988; Weisbach, 1988). Along with the clear influences of firm performance on CEO turnover, leverage, firm size and firm diversification also play a role on CEO dismissal decision. However, the effects are not significant. For example, firms which are diversified and have large size may bring a mass of information to the board of directors in the evaluation of CEOs' performance. Nonetheless, this problem does not occur in a long-term evaluation (Sponholtz, 2006).

Moreover, when and control are ownership separated, the agency problem seems to occur easily. In regard to the separation, many studies have researched a variety of factors influencing CEO turnover and the link between firm performance and CEO turnover. Muravyev et al. (2009) concludes that the correlation of firm performance-CEO turnover is influenced by ownership (Kang and Shivdasani 1995), board size (Yermack 1996), and board composition (Weisbach 1988). An argument has been raised around ownership that concentration in ownership decreases the sensitivity of the link between firm performance and CEO turnover, while large outside shareholders would improve the sensitivity. The argument relates to another argument on board composition. It considers that the percentage of outsiders on the board will increase the sensitivity of CEO turnover to performance (Brunello, Graziano, and Parigi, 2003; Bushman, Dai and Wang, 2010). Indeed, the argument possibly explains that prior studies try to distinguish the independence of boards on evaluation and monitoring CEOs. For example, Hwang and Kim (2009) identify an independent director as director as socially independent if he has no social ties with the CEO, and find a stronger relationship of CEO turnover with firm performance in firms whose boards are both socially independent and conventionally than firms whose boards are only conventionally independent. Meanwhile, Masulis and Mobbs (2009) differ from other studies by focusing on the independence of inside directors and report that that the independence of the board could reduce managerial entrenchment and lower agency costs.

With regard to the studies on CEO characteristics and CEO turnover, it seems to be concluded that the more power the CEO has, the less sensitivity of firm performance-CEO turnover correlation is (Horner, 2010). The statement is evaluated by the researches on CEO duality or leadership structure of the board (Brookman and Thistle,

2009; Coates and Kraakman, 2010), CEO ownership (Denis, Denis, and Sarin, 1997; Goyal and Park, 2002; Brunello et al., 2003), CEO age and CEO tenure (Huson et al., 2004; Parrino, 1997). Besides, the influence of CEO gender and education does not reveal a significant effect on CEO turnover, as a result of many prior studies that have been undertaken (Eisfeldt, Camelia and Kuhnen, 2010).

Together with those factors, Eisfeldt, Camelia and Kuhnen (2010) stated that industry condition has received little attention. Practically, prior studies do mention their concerns on industry conditions such as industry performance and industry competition (Morck, Shleifer, and Vishny, 1989; Parrino, 1997; Coates and Kraakman, 2010). The industry condition in those studies plays a role in providing information for the decision making on CEO dismissal when the board of directors evaluates the performance of the firm to other firms in the same industry, or relative to market and industry benchmarks (Coughlin and Schmidt, 1985; Dedman and Lin, 2002).

Yet although many studies have presented determinants of CEO turnover and the effects of these determinants, there is little evidence of developing and transition countries. For example, in Russia, the Czech Republic and the Ukraine, Abe and Iwasaki (2007, 2010) and Muravyev (2009) report some evidences in the relationship of CEO dismissal with performance of firm, and several studies have considered about the effects of ownership (Filatotchev, Wright, and Bleaney, 1999; Filatotchev et al., 1999; Bevan et al., 2001).

Similarly, there is an unexplored picture of CEO turnover in China, although several studies have been researched on the CEO dismissal process. For instance, Groves et al. (1995) reported that replacement of managers in non-listed SOEs is inversely correlated to performance. Together, several papers documented that CEO turnover is statistically correlated to firm accounting performance (Firth, Fung and Rui, 2006; Kato and Long, 2006; Chang and Wong, 2009; Chi and Wang, 2009). Besides, the ownership structure has been researched. However, the findings are mixed. For example, Chang and Wong (2009) found that ownership influences CEO turnover, but this relationship moves in opposite directions under the presence of private and state shareholding. Especially, there are some studies on state ownership on CEO turnover (Kato and Long, 2003; Chi and Wang, 2009; Wang, 2010) and the effects of political connection (Liao et al., 2009;



Cao et al., 2011, You and Du, 2012). The reason for those studies is regarding the transition of China in which there are a larger number of SOEs and the influence of the State is stronger on SOEs and the economy than other countries. However, there is little to compare with the voluminous literature that has arisen in developed countries. Therefore, the picture of corporate governance in transition and developing countries is still unclear.

## **CHAPTER THREE: COUNTRY REVIEW**

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### 3.1. INTRODUCTION

In order to gain a better understanding on the environment in which this study is based, this chapter presents an overview of Vietnam. Based on the review, a general picture of the Vietnamese economy is exhibited. Moreover, the development of the economy is considerable, since Vietnam is considered as a transition country. Besides, the influence of globalisation on the development of the Vietnamese economy is represented. It shows the reasons why Vietnam's government has adjusted its legal and regulatory framework. Remarkably, the fall of the Soviet Union and Communist countries influenced the decision of the Vietnamese government to integrate into the global market. Also, international integration requires improvements in many areas in Vietnam including economic, political and social changes. In fact, the improvement progress have been beginning from 1986, namely "Doi Moi". Moreover, the characteristics of transition countries are addressed. The characteristics provide an insight into the economies, politics, and societies in transition countries to which Vietnam belongs.

Under the economic reform Doi Moi, there were mass changes in Vietnamese economy and society. Firstly, the planned economy was transformed to a market-oriented economy. In order to support the development of the new market-oriented economy, the role of Vietnamese government and legal frameworks were changed. In this chapter, the role of government shows how the Vietnamese government manages the new market-oriented economy. Along with it, the financial system and the development of a legal framework for corporate governance in Vietnam are presented. Furthermore, the characteristics of Vietnam help in exploring the governance structure in listed enterprises. Finally, a review of corporate governance in Vietnam is addressed. It draws basic sights of corporate governance which help in understanding deeply the efficiency and effectiveness of corporate governance in Vietnam,

### 3.2. GLOBALISATION

In general, the term globalisation has been discussed for over several decades. However, the effects of it are still considered, especially in transition countries. Indeed, Stiglitz (2002) provides a definition of globalisation as the closer integration among countries in the world. This integration has reduced transportation and communication costs by

breaking down barriers between countries. It has created flows of products, services, capital, technology, knowledge, and people across boundaries. Not only does globalisation enforce the integration of economies, it also leads to political and social interactions (Tabb, 1999). It also can be understood as the multiplicity of interconnection and linkages (McGrew, 1996). Thereby, there are many changes which are the result of globalisation (Porter, 2004).

In fact, the trend of globalisation started in the 1970s when developed and developing countries adopted strategies to expand their economies and to improve their global competitive ability (Mittelman, 2000). At the time, the ideology in international relations was reduced among countries. In addition, there was a movement from power competition to economic competition between countries in the world (Nguyen-Phuong, 2001). Under the movement, global capital, technology and workforces became subjects for promoting international trade and liberalising investment. Even though globalisation is neither a new term nor a new wave in developed or Western countries, it gained more attention from the Vietnamese government after the fall of the Soviet Union. Indeed, the fall of the Soviet Union and other Communist countries created a mass of changes in politics, societies and economies. According to Peng and Heath (1996), political systems, regulations and financial markets were destroyed following the falls. Moreover, either the fallen Communist countries or the rest of Communist countries, such as Vietnam and China, realised the need to implement market-based economies. Thus, a new market formation was created in order to strengthen the economies of those countries (Healey, 1994).

According to Jenkins (2006), international integration in Vietnam began along with the economic reform “Doi Moi” in 1986. From the Vietnamese perspective, globalisation seems to be referred to the term “internationalisation”. As mentioned above, the fall of the Soviet Union had cut down the support for the Vietnamese centrally-planned economy. It led the Vietnamese government to adjust policies in order to encourage international trade, to adopt new technologies and to improve its competitive ability in the global market. Indeed, “internationalisation” has brought many changes in Vietnam. The first change is the movement from a centrally-planned economy to market economy with the control of the state. By implementing the new market economy, domestic

private and foreign sectors have been encouraged to develop. Indeed, the encouragement is represented by various regulations and policies made from year to year, such as 2000, 2005 and 2006. Along with the integration, new products, technologies and knowledge were raised and adopted. The adaptations are not only in macroeconomic terms but they are also in microeconomic terms. For instance, the term of corporate governance has been adopted, along with the appearance of new types of business institutions, in order to improve the effectiveness and efficiency of both state and private enterprises in Vietnam.

Furthermore, the requirements for improvement in economy, policies and society are increased, since Vietnam became a member of the World Trade Organization (WTO) on 11<sup>th</sup> January, 2007. In fact, as a member of WTO, Vietnam has to take down the barriers in order to encourage global liberalisation. Hence, the Vietnamese government has to face the matter of its legal and regulatory framework in order to adjust, following the legal frameworks of WTO's members. Furthermore, the entries of multinational corporations which have strong financial capacity, wide distribution networks, and high managerial levels, can create threats to Vietnamese enterprises. Consequently, it becomes necessary for The Vietnamese government to reform its economy and to enforce legal, regulatory and financial systems, in order to compete in the global economy. Also, the efficiency and effectiveness of management in Vietnamese enterprises need to improve, since the enterprises have to deal with challenges, either in international trade or competition in the domestic market.

### **3.3. CHARACTERISTICS OF TRANSITION COUNTRIES**

In this section, a definition and characteristics of transition countries have been presented in order to provide a general insight of economies in transition countries. Furthermore, it goes deeper into the characteristics of enterprises in transition countries.

#### **3.3.1. Definition and Characteristics of Transition Countries**

In general, the terms of emerging country and transition country, are sometimes used interchangeably. However, Hoskisson et al. (2000) indicated that transition countries are a part of emerging countries. As a result, both emerging and transition countries attempt

to increase economic liberalisation and to accept a free-market system. Nevertheless, depending on conditions, such as the rate of economic development or government policies, a country is considered as an emerging or a transition country (Hoskisson et al., 2000). As a result, both emerging and transition countries suffer similar stages and conditions, such as a deficit of skilled labour, inefficient capital market and political volatility (Hoskisson et al., 2005). Furthermore, Khanna and Palepu (1997) stated that flexibility and inefficient regulation systems in those countries weaken corporate governance. Besides, disclosure of information and reports are commonly weak in the financial markets of these countries (Khanna and Palepu, 2000). Furthermore, governments in these countries lack the ability to control enterprises and protecting property rights (Djankov and Murrell, 2002; Hoskisson et al., 2005). Also, inflation in transition countries is common, and it, thereby, decreases a country's attractiveness for high investment risk (Golub et al., 2003; Luthans et al., 2006).

Regarding the similar characteristics of emerging and transition countries, some studies have tried to distinguish the difference between the two types of countries. In following the classification of Hoskisson et al. (2000), transition countries includes 13 countries which belonging to the former Soviet Union, whereas other developing countries in the world are regarded as emerging countries. Meanwhile, Sachs and Warner (1995) suggested that countries in which private venture, liberalising and stabilising are supported and market mechanisms are reinforced, are considered transition economies. Especially, in those countries, improving the efficiency of SOEs is the main goal. Besides, Golub et al. (2003) reported that restructuring enterprises is the main concern, since there is limitation of capital available in transition countries. Additionally, Peng (2001) reported that the private sector in transition countries is small and underdeveloped. Also, foreign investors are cautions in investing into transition countries as a result of an embryonic banking system (Golub et al., 2003). Hence, transition countries generally attempt to adjust and improve their legal and regulatory frameworks in order to protect property rights and to enhance the market economy (Svejnar, 2002). Consequently, Vietnam is appropriately considered as a transition country.

### 3.3.2. Characteristics of enterprises in transition countries

According to Kornai (1992), enterprises in a transition country are commonly developed from SOEs and they, therefore, are macro inefficient. Furthermore, lack of private ownership among enterprises in transition countries leads to little inducement for improving performance of enterprises (Meyer and Peng, 2005). Regarding the large number of SOEs in the market, there is an old thought which is that pursuing quantity is still considered by SOEs to be more important than providing a better quality of products or customer service (Meyer, 2001). As a result, SOEs normally try to fulfil either economic or social objectives, and they, hence, face difficult in operating efficiently (Djankov and Murrell, 2002). Along with those problems, SOEs are less likely to face loss-making, since a policy of refinancing the loss-making enterprises is still applied in transition countries by governments. Hence, Djankov and Murrell (2002) assessed that enterprises in transition countries are less worried about profitability. Besides, state and large enterprises might unofficially avoid the requirements of regulatory, currency, or reporting mechanisms (Eilat and Zinnes, 2002). Moreover, there is a lack of management skills in transition countries (Luthans et al., 2006). This creates opportunities for managers and state officials to gain private benefits because of the underdeveloped legal and regulatory frameworks (Peng, 2001).

In addition, Peng and Heath (1996) suggested that enterprises in transition countries commonly lack direction in order to obtain and distribute resources as a result of the relying on governments. Especially, the lack of management in SOEs resulted in inefficiency in using resources although they had support from states. Thus, the enterprises have little experience in compared to enterprises in developed countries. Together, these factors lead to inefficient implementation of technologies and ineffective workforce training, which weakens their global competitive ability (Meyer, 2001). Not only international competitive abilities are weakened, but domestic competitive abilities of transition countries' enterprises also are limited, since they are producing uncompetitive products (Uhlenbruck et al., 2003).

Furthermore, new ownership appeared among enterprises in transition countries along with mass privatisation progress. However, underdeveloped bond and stock market, and

the banking system are the problems of the financial market. Besides, these lead to an important doubt in corporate governance in transition countries. As a result, the efficiency and effectiveness of corporate governance are addressed following the development of a legal and regulatory framework, financial market, attractiveness of foreign investment and the transformation to market-based economy (Babic, 2000). For example, shareholders are less aware of their roles, rights and responsibilities in enhancing corporate governance in transition countries' enterprises. They seem to wait for the paying of dividends rather than to enforce managers of enterprises to increase the value of shareholders (Babic, 2003). It also weakened the role of monitoring managers in the enterprises.

### **3.4. ECONOMIC REFORM IN VIETNAM**

Being a transition economy, Vietnamese economic reform is an important process which leads to the increase in various aspects of the economy such as ownership structure, lawsuit, management systems as well as corporate governance in Vietnamese enterprises. Hence, the thesis, in general, attempts to present the economic reform process in Vietnam.

#### **3.4.1. Economic reform of Doi Moi**

In 1986, an economic reform process called Doi Moi was initiated by the Vietnamese government. Before Doi Moi reform started in 1986, the Vietnamese economy was identified as a centrally planned economy. The traits of the economy were economic bureaucratism, inefficiencies, and overwhelming institutional rigidity. Besides, the economy was operated without a functional market and market price system. Private property rights, especially productive physical assets, were not formally recognised by laws and regulations (ILO, 2004). Since the Vietnamese economy had inefficiencies, Vietnam remained as a member of the Least Developed Countries (LDCs) even a decade after Doi Moi. Indeed, the Vietnamese national economy was in severe financial straits, with a backward distribution system and relying heavily on Soviet-bloc financial assistance and aids in kind.



According to Thompson and Prater (2004), Doi Moi reform includes six major economic policy changes as below:

- The government undertook the decentralisation of state economic management which give more autonomy to state industries.
- In order to solve and control inflation, the administrative measures based on planned economy were replaced by a market orientated monetary policy.
- Responding to an outward orientated policies in external economic relations, the government allowed interest rates and exchange rates to respond to the market.
- Agricultural policies were changed to give greater freedom to buy market products and inputs, and allow for long term land use rights.
- Private sector is accepted and encouraged along with economic growth.
- Creating more opportunity for getting foreign investment. Both state and private enterprise could deal directly with foreign markets for investment purposes or export/import.

Those changes show that the Vietnamese government decided to implement a market-based economy. The new economic system was far away from the old Stalinist economic system which strongly focuses on total collectivization of agriculture and the development of heavy industry (Le, 2005). Market forces came in place and the economy gradually abolished the old styled centrally planned economy, which had previously operated based on the principles of bureaucratic orders, financial and physical subsidies from the state and the Soviet vertical pricing system. At this point, a shift to a market economy had already been determined by political leaders and advocated by major economic scholars and local governmental policy-makers. According to Vuong (2004a), Doi Moi started with a fairly radical epistemological advance of recognizing legitimate rights of private properties and the private economic sector. Simultaneously, the requirement of reducing economic inefficiencies, rigidity and dysfunctional market and distribution systems became apparent and imperative. Therefore, Doi Moi became a milestone in Vietnam's political and economic development.

Besides, adoption of the lessons from China's successful market-oriented reforms in 1978, the structure for a market economy was quickly inaugurated. For example, the Foreign Direct Investment (FDI) Law was announced in 1987. Later, the Law announced several amendments in 1990, 1992, 1996, 2000 and 2005 which are considered as the primary cornerstones of the legal framework and progressive steps towards the development of the Vietnamese economy. In addition, the FDI legislation created chances to provide international market access and attract new investments for Vietnam's economic development (ADB, 2007). Together, the amendment of the Constitution of Vietnam in 1992 created more favourable conditions to attract FDI inflows into the newborn market economy of Vietnam (Riedel, 1997; Vuong, 2004(a); Pham, Vuong and Tran 2008). Furthermore, many steps have been undertaken by the Vietnamese government in order to integrate with the global economy. Vietnamese market-based legal frameworks and economic policies have been completed and reviewed in order to support the international integration.

**Table 3-1: Investment by ownership in Vietnam**

Year	Of which				Total	Of which		
	Total	State	Non-State	Foreign invested sector		Total	State	Non-State
	Billion VND				Structure(%)			
1996	87394	42894	21800	22700	100.0	49.1	24.9	26.0
1997	108370	53570	24500	30300	100.0	49.4	22.6	28.0
1998	117134	65034	27800	24300	100.0	55.5	23.7	20.8
1999	131171	76958	31542	22671	100.0	58.7	24.0	17.3
2000	151183	89417	34594	27172	100.0	59.1	22.9	18.0
2001	170496	101973	38512	30011	100.0	59.8	22.6	17.6
2002	200145	114738	50612	34795	100.0	57.3	25.3	17.4
2003	239246	126558	74388	38300	100.0	52.9	31.1	16.0
2004	290927	139831	109754	41342	100.0	48.1	37.7	14.2
2005	343135	161635	130398	51102	100.0	47.1	38.0	14.9
2006	404712	185102	154006	65604	100.0	45.7	38.1	16.2
2007	532093	197989	204705	129399	100.0	37.2	38.5	24.3
2008	616735	209031	217034	190670	100.0	33.9	35.2	30.9
Prel. 2009	708826	287534	240109	181183	100.0	40.6	33.9	25.5

(Source: General Statistic Office of Vietnam, 2009)

In the years following Doi Moi, the economic conditions have improved significantly, due largely to a substantial economic expansion under the open-door policy (Nghiep and Quy, 1999). Since the private sector is accepted, it has developed along with the development of the foreign sector in the Vietnamese economy. In addition, Doi Moi creates a balance in the Vietnamese economy. Instead of depending strongly on heavy industry, agriculture and services have received more investment and have brought more value to the total Gross Domestic Product (GDP) of Vietnam (Table 3-2).

**Table 3-2: GDP at current prices by economic sector**

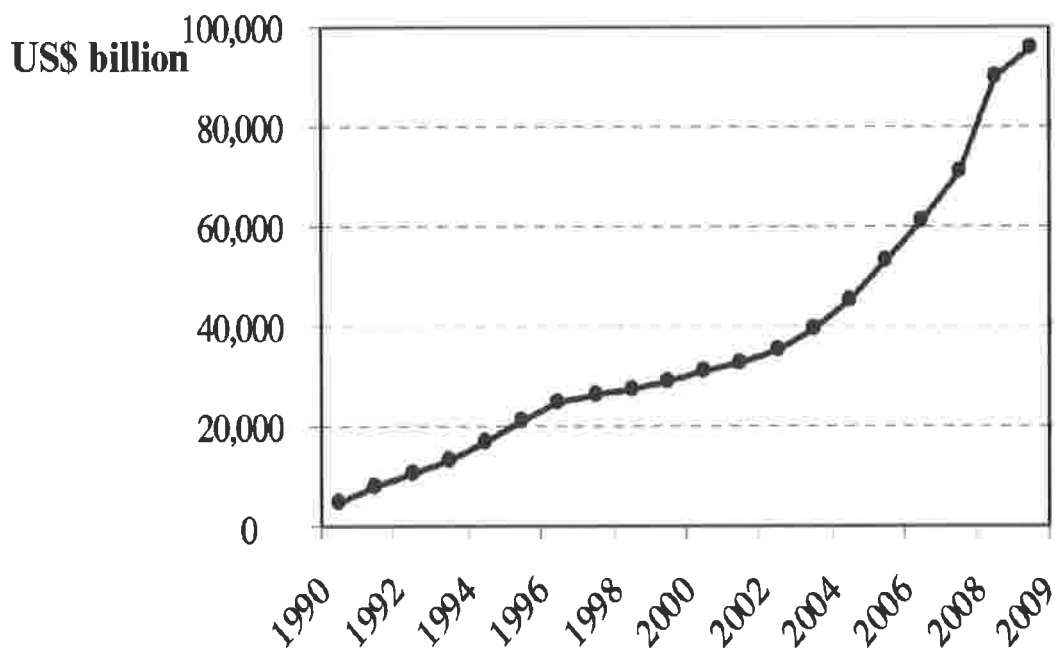
	<i>Of which</i>				<i>Of which</i>			
	Total	Agriculture, forestry and fishing	Industry and construction	Service	Total	Agriculture, forestry and fishing	Industry and construction	Service
	<i>Billion VND</i>				<i>Structure (%)</i>			
1990	41955	16252	9513	16190	100.00	38.74	22.67	38.59
1991	76707	31058	18252	27397	100.00	40.49	23.79	35.72
1992	110532	37513	30135	42884	100.00	33.94	27.26	38.80
1993	140258	41895	40535	57828	100.00	29.87	28.90	41.23
1994	178534	48968	51540	78026	100.00	27.43	28.87	43.70
1995	228892	62219	65820	100853	100.00	27.18	28.76	44.06
1996	272036	75514	80876	115646	100.00	27.76	29.73	42.51
1997	313623	80826	100595	132202	100.00	25.77	32.08	42.15
1998	361017	93073	117299	150645	100.00	25.78	32.49	41.73
1999	399942	101723	137959	160260	100.00	25.43	34.50	40.07
2000	441646	108356	162220	171070	100.00	24.53	36.73	38.74
2001	481295	111858	183515	185922	100.00	23.24	38.13	38.63
2002	535762	123383	206197	206182	100.00	23.03	38.49	38.48
2003	613443	138285	242126	233032	100.00	22.54	39.47	37.99
2004	715307	155992	287616	271699	100.00	21.81	40.21	37.98
2005	839211	175984	344224	319003	100.00	20.97	41.02	38.01
2006	974266	198798	404697	370771	100.00	20.40	41.54	38.06
2007	1143715	232586	474423	436706	100.00	20.34	41.48	38.18
2008	1485038	329886	591608	563544	100.00	22.21	39.84	37.95
Prel. 2009	1658389	346786	667323	644280	100.00	20.91	40.24	38.85

(Source: General Statistic Office of Vietnam, 2009)

Following Doi Moi, the Vietnamese economy has substantially expanded. As shown in Figure 3-1, GDP is computed in US dollars during the period 1990-2009. The surge in

real GDP led to a continuous increase in per capita GDP, which induces more capital formation within the populace for future economic activities such as entrepreneurship and financial investments. The economic impacts of the extensive reform in the national economy have been profound and indisputable. However, there have been emerging issues with low economic efficiency, high Incremental Capital Output Ratio (ICOR), prevalent rent-seeking, oversized state-owned industries, capital-hungry private enterprises and structural problems of allocating financial and physical assets to different sectors of the economy (Vuong, 1997(a), 1997(b); Vuong and Nguyen, 2000; Vuong and Tran, 2009a, b).

**Figure 3-1: Vietnam's GDP (1990-2009)**



Source: Vuong, Tran and Nguyen (2010).

Indeed, Vietnam has taken nearly 14 years to double its per capita GDP from a low level of around US\$200 in 1986. In accordance to Pham and Vuong (2009), the total GDP of Vietnam in dollar terms was only approximately US\$11 billion in 1986. Nevertheless, by the end of 2007, the fast-moving economy of Vietnam had an opportunity to double the per capita GDP in 2000, taking only half the time for the

1986-level to double. It was expected that the figure was likely to attain US\$1,200 in 2010 (Pham and Vuong, 2009).

Practically, along with the development of the Vietnamese economy, the privatisation process in Vietnam is one of the important processes in order to improve the efficiency of SOEs. Particularly, the privatisation process was launched in 1992 under the decision of the Prime Minister (Decision 202-CT/TTCP). Under the decision, SOEs were given an opportunity to privatise. Besides, employees of equitized SOEs are allowed to buy their enterprise's shares in advance. Moreover, SOEs which are profitable and small-medium size are allowed to launch the privatisation. However, strategic firms among those SOEs were still out of the process. Being a pilot scheme, the privatisation process, therefore, was launched slowly in a small way. As Truong et al (2006) reported, there were only 5 SOEs equitized during 1992-1996. Nevertheless, the improvement of firm performance in equitized SOEs has led the Vietnamese government to enforce the privatisation process. Indeed, Truong et al. (2006) reported that the privatisation process has increased efficiency of privatised SOEs. For example, profitability and sale revenue increased along with the raise of employee income. Also, they reported that the improvement of SOEs' performance resulted from residual state ownership and listing on the stock market. Besides, corporate governance has become important and has been considered as a key factor in order to improve firm performance. Regarding the efficiency of the privatisation process, it is reported that around 2,000 of the 6,300 SOEs had been privatised by the end of 1994. Those SOEs accounted for nearly half of the SOE sector's employment (Sjoholm, 2006).

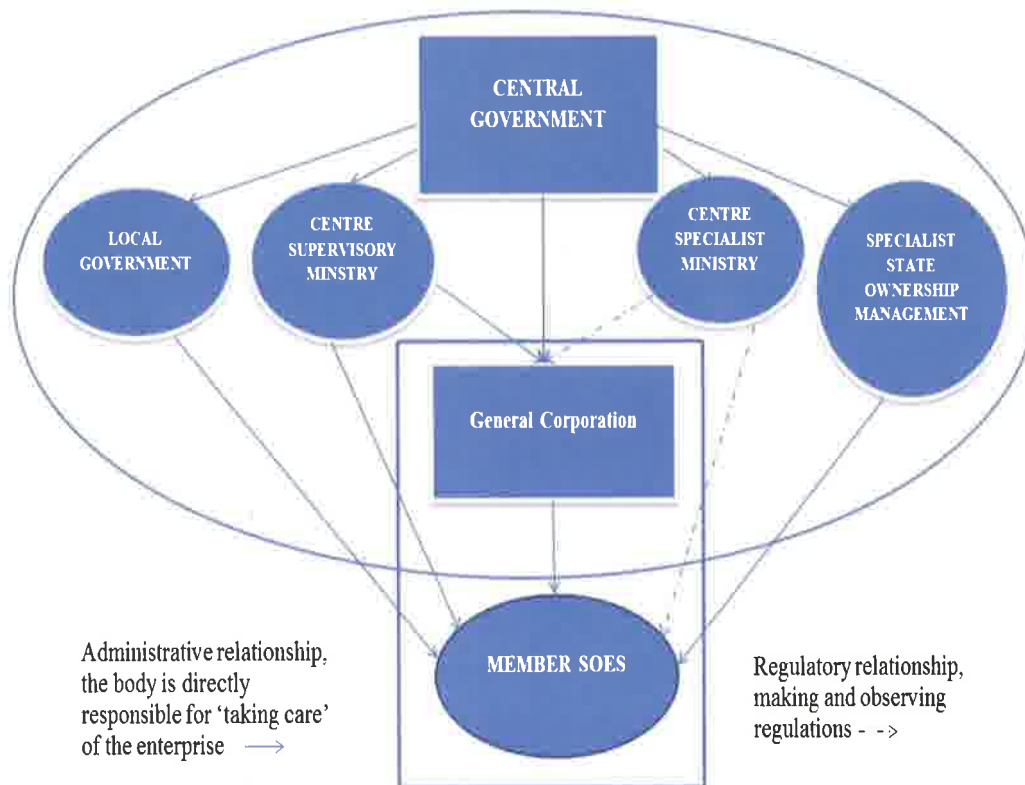
In fact, the opening of stock markets has accelerated the speed of the privatisation process. As reported, there were 3,400 SOEs were privatised by the end of 2000 and were small and medium enterprises, along with the opening of the HoChiMinh Securities Exchange Centre. Furthermore, the presences of the Hanoi Securities Exchange Centre, and several regulation and legal frameworks have increased the number of equitized SOEs. In the period of 2007-2010, there were 1,500 SOEs being equitized. Consequently, the privatisation process has created diversification in the Vietnamese economy and a new market environment under a market-oriented economy.

### 3.4.2. The Role of Government

Along with the Doi Moi economic reform, it is important to understand the state role in the Vietnamese economy. Indeed, this is different from other countries undergoing the transformation to a market-based economy. The market-based economy in Vietnam is different because of the orientation of the Vietnamese government. This market economy is called market-oriented economy. In fact, over 25 years from the beginning of Doi Moi, the respective roles of Vietnamese government have been adjusted. In fact, the Congress VIII of the Vietnamese Government has pointed out that the government holds an important role in determining economic, political, cultural and social developments. Thereby, government directly invests in some areas along with setting and enhancing the legal and regulatory framework for the developments. The actions ensure a reduction in the negative restriction of a market economy.

Similar to other transition countries, the Vietnamese Government plays a vital role in liberalising and encouraging the development of the private sector along with improving the efficiency of SOEs. In order to fulfil the objectives, the government has provided several policies to support private enterprises. Along with those policies, integration policies and attractive foreign investment policies had established in order to gain the investment and the presence of foreign enterprises in Vietnamese economy. The encouragement of the developing private sector is clearly presented via the Companies Law 1990, the Enterprises Law 1999 and 2005, and the Securities Law 2006. However, SOEs still have an important role in the Vietnamese economy, since SOEs are considered as a tool of Vietnamese Government in orienting the market. According to Kokko and Sjöholm (2000), private enterprises are unable to generate sustainable growth unless the government demonstrates a variety of rights and responsibilities in the economy. Besides, Vietnam puts its controls into the financial and capital markets via the state banks and large SOEs. As a result, there are general and special corporations which are large and have significant influences in the important industries of the Vietnamese economy (Kokko and Sjöholm, 2000). Therefore, understanding the governance structure of SOEs could reveal the role of the Vietnamese Government along with its role in improving and creating institutional, legal and regulatory frameworks.

Figure 3-2: Governance structure of SOEs in Vietnam



In fact, the Vietnamese Government has realised the important task of improving the efficiency of management in SOEs following the process of SOE privatisation. Nevertheless, the government is still holding directly or indirectly the largest proportion of shareholding in privatised SOEs. For instance, the government holds all or the largest proportion of shares in general corporations, whereas the proportion of shares in members SOEs are held by the general corporation, central supervisory ministries, the state ownership management institution or local government, which manage SOEs on behalf of the government and have responsibilities for the profitability of SOEs. Also, either general corporations or SOEs are supervised by central specialist ministries such as Financial, Planning and Investment, Natural Resources and Technologies Ministries, etc. The ministries have regulatory relationship with SOEs in order to observe and provide suggestions to the government for making regulations.

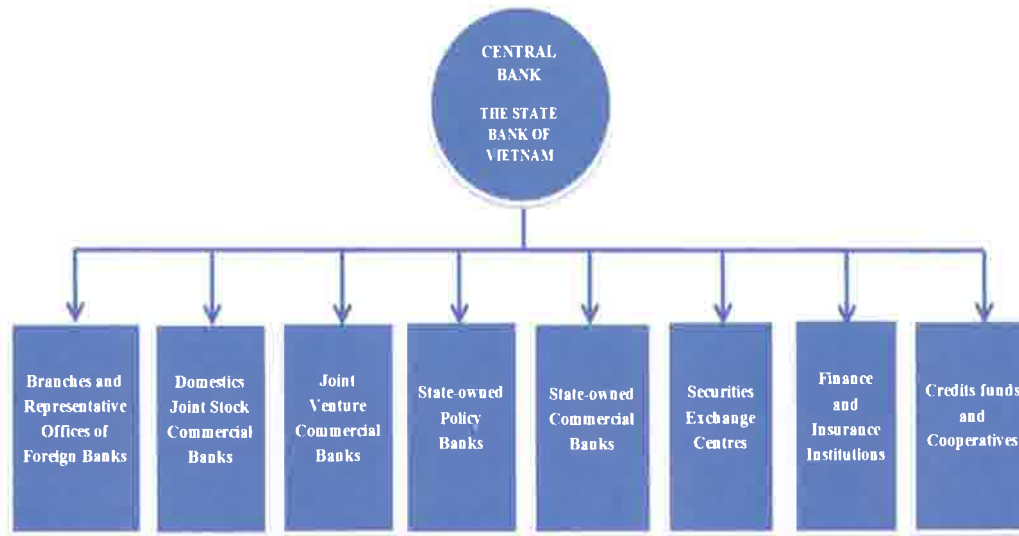
### 3.4.3. Financial system in Vietnam

Along with the economic reform process of Doi Moi, the financial system of Vietnam has also been reformed. According to Anwar and Nguyen-Phi (2011), the reform of the financial system in Vietnam from single-tier bank system to two-tier bank system began in the early 1990s. In detail, a single-tier bank system in the prior period was operated by the State Bank of Vietnam (SBV) which was acting as the Vietnamese Government's budget tool (Ngo, 2012). In this period, SBV played a vital role in providing all domestic banking services through a numerous number of its branches. The infrastructure and trading functions were given to two specialist banks, which were the bank for foreign trade of Vietnam (VCB) and the bank for investment and development of Vietnam (BIDV). Particularly, VCB was responsible for foreign trades including finance and foreign exchange transactions. Meanwhile, BIDV held functions such as purchasing materials, equipment for SOEs, managing public expenditure and infrastructure projects. Since the planned economy was transformed to a market-oriented economy, the financial system and banking system also were transformed.

Under the economic reform, the development of private sector and foreign investment led the Vietnamese Government to reform the banking system by providing several legal and regulatory frameworks and policies. Remarkably, the two Decrees on SBV and on banks, credit cooperatives and financial institutions created a new environment for the banking system in Vietnam. This led to a rapid increase in the number of banks, financial institutions and insurance companies. As Ngo (2012) reported, there were 87 private commercial banks, including five banks which were foreign fully owned, and there were 40 foreign banks' branches in Vietnam at the end of 2009. Indeed, not only by adjusting the function of SBV to state-owned commercial banks (SOCBs), the appearance of private, foreign and mixed ownership banks had helped to improve the financial services and system in Vietnam. Furthermore, credit funds and cooperative institutions, and financial and insurance institutions have developed along with the two securities exchange centres in Hanoi and HoChiMinh. Overall, the financial system in Vietnam is a bank-based system which is based on the controlling of SBV. In the system, SBV concentrates on providing monetary policies and controlling their implementation as a modern centre bank (Anwar and Nguyen-Phi, 2011).



Figure 3-3: Financial system in Vietnam



According to Ngo (2012), in the new financial system, SBV is acting as a central bank, whereby it allocates other functions, such as commercial, infrastructure and social to state-owned commercial banks (SOCBs) and state-owned policies and social banks. In particular, there are four SOCBs and three state-owned policies and social banks. In fact, state-owned policies and social banks are responsible for practising the social policies of SBV, whereas SOCBs are playing a vital role in commercial and infrastructure functions. As a result, SOCBs hold the largest percentage of total bank assets, which are over half of the total bank assets in Vietnam. Besides, SOCBs are still playing a role in financing and refinancing SOEs. Since there is a large number of SOEs in Vietnamese economy, the influences of SOCBs on the economy are important (Dufhues, 2003).

On the other hand, private, foreign and mixed-ownership banks have little influence on the financial markets. As a result, those banks are small and have weak connection to either SOEs or private enterprises in order to expand their loans. In Vietnam, foreign banks commonly involve specialised areas of trade finance. Mostly, they make their lending via Vietnamese banks to large SOEs. Meanwhile, private and joint-stock banks pay more attention to individual loans rather than lending to enterprises, since non-state enterprises rarely apply finance themselves by formal external finance. Besides, there

are underdeveloped situations in finance and insurance institutions, and credit funds and cooperatives. Furthermore, the stock and bond markets are still young and underdeveloped although the first securities exchange centre was established in HoChiMinh in 2000. The market is still a field for large enterprises rather than small and medium enterprises (Anwar and Nguyen-Phi, 2011).

Overall, the financial system in Vietnam reveals a weak structure and less competition, since it relies heavily on the state and SOCBs. Non-state banks and financial institution are still embryonic. Furthermore, banks can mobilise mainly short-term deposits, while the mid-term and long-term are still inefficient. This is the result of lack of management skills in Vietnamese banks (Ngo, 2012). Therefore, this leaves room for the informal financial system to expand. In fact, the informal financial system in Vietnam does exist and seems common to small enterprises although its size and efficiency are difficult to measure exactly. Besides, information disclosure is low quality which reduces the ability of credit risk managements in Vietnamese banks. Together, there is very little investor protection since relative legal and regulatory frameworks are weak in defining and enforcing property rights, collateral and bankruptcy.

#### **3.4.4. The development of a legal framework for corporate governance**

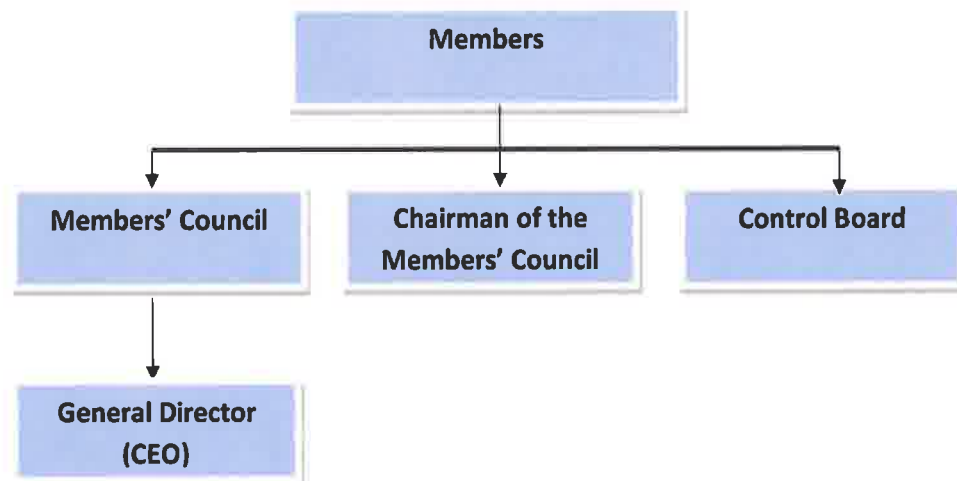
The development of a legal framework under the Doi Moi policy has created numerous changes in Vietnam. Many laws and regulations were promulgated after 1986, such as the FDI Laws in Vietnam 1987, the Company Law 1990, the Private Enterprise Law 1990, the Law on Encouragement of Domestic Investment 1994, the State Owned Enterprises Law 1996 and the Law on Cooperatives 1996 (LeMinh and Walker, 2008). Especially, the Constitution 1992 is a notable regulation under the Doi Moi process, which created business freedom rights and a multi-sectored market economy in Vietnam (Bui, 2006). Therefore, a multi-sectored market economy provides many opportunities for both domestic and foreign investors to operate a business. Investors are able to operate their business under a variety of forms such as limited liability companies (LLCs), shareholding companies (SC) following the Company Law 1990. Besides, other kinds of investment such as proprietors, private enterprises, partnerships, joint venture or cooperatives companies diversified the Vietnamese economy (CIEM, 1998).

Indeed, the Company Law 1990 had a significant role in creating the re-emergence of company law and business freedom in Vietnam (Gates, 2000). However, the law, in its first regulations to open a market economy in Vietnam, had shortcomings. For example, there is a lack of business freedom, limited corporate governance rule and several weaknesses in administration. Therefore, the new law was needed to enhance and solve those shortcomings. Particularly, the Enterprises Law which provide in 1999 replaced the Company Law 1990 and the Private Enterprise Law 1990.

According to Bui (2006), the Enterprises Law 1999 was an adoption by the Vietnamese Government of the legal framework of Western countries, especially Anglo-American law. This law also was adjusted following the prior statutes of Vietnamese enterprises. Hence, it provided for the formation of various types of business organisations. For example, the Enterprises Law 1999 provided two more business organisation forms which are one-organisation owned LLCs and partnerships. Furthermore, this law created a compulsory governance structure for multiple shareholder LLCs (MLLCs) and SC. In detail, MLLC had to include a members' council (MC) including all company shareholders, a chairman of the MC, a managing director (MD) and a board of supervisors. Meanwhile, SCs were required to have similar corporate governance rule. Instead of MC, SC had a shareholders' meeting which included all shareholders who have voting rights. Moreover, a board of management, a chairman of board of management, a CEO and a board of supervisors were required in the corporate structure of a SC in Vietnam. In addition, the board of supervisors in both LLC and SC form were required to have more than eleven (11) shareholders (LeMinh and Walker, 2008). In fact, the CIEM, GTZ and UNDP Vietnam (2004) evaluated the efficiency of the Enterprises Law 1999 and pointed out that this law still needed adjustments for its shortcomings. As a result, this law provided an inflexible corporate governance structure. Besides, the MC and board of management had unclear functions in both MLLCs and SCs. There is also a lack of investors' protection in SCs (CIEM and GTZ, 2006). Hence, it is believed that in attempting to create a favourable business environment for investors and to support the economic integration in Vietnam, the Vietnamese Government needs to enact the incumbent Enterprises Law (Bui and Walker, 2005). Indeed, the new Enterprises Law was provided in 2005 in order to adjust the shortcomings of the Enterprises Law 1999.

In accordance to Bui (2006), the Enterprises Law 2005 improved the law on business organisation. It creates more opportunities for individuals or organisations to set up companies under common law. It shows that the Vietnamese Government had reduced the discriminations between economic sectors, domestic and foreign investors. As a result, both Vietnamese and foreigners are able to open their own business following simplified procedures. Furthermore, SOEs are forced to convert to company forms under the Enterprise Law 2005, regardless of ownership types. Hence, all business organisations which are set up in Vietnam are operated as one of the companies defined in this law. Besides, the law provides four forms of company which are single member limited liability company (SLLC), multiple member limited liability company (MLLC), shareholding company (SC), and partnership company. Among these company forms, MLLC and SC are common forms which are undertaken by many business organisations in Vietnam (LeMinh and Walker, 2008).

**Figure 3-4: Management structure of a Multiple-shareholder limited liability company**



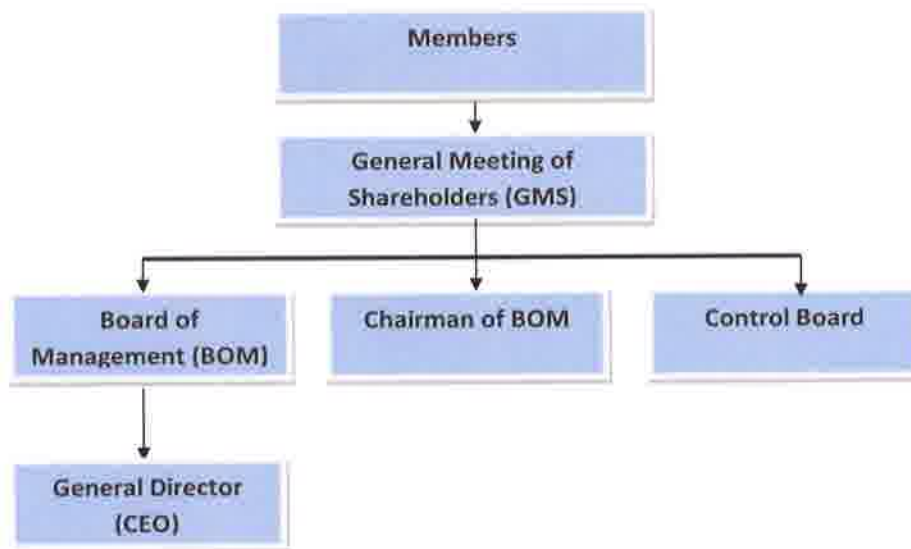
Source: LeMinh and Walker (2008)

According to Article 46 in the Enterprises Law 2005, MLLCs' management structure must include a MC consisting of all members, a Chairman of the MC who is appointed by the MC, a Director or General who is appointed by the MC, and a Control Board when there are more than eleven (11) members in a MLLC (Figure 3-4).

Under the Enterprises Law 2005, a MLLC is a business organisation that is a separate legal entity and has no more than 50 members whose liability is limited to the amount they undertake to contribute to the company's share capital. Additionally, MLLCs have no right to issue shares to the public. Hence, both MLLCs and SLLCs are regarded as private companies in Vietnam (Bui and Nunoi, 2008)

In contrast, the public companies in Vietnam perform in the form of SCs. In regard to the Article 95 in the Enterprises Law 2005, the management structure of a SC must have a GMS consisting of all shareholders who have the right to vote, a Board of Management (BOM) consisting of between 3 to 11 persons appointed by the GMS, a Chairman of the BOM appointed either by the GMS or BOM, a General Director (CEO) appointed by the BOM, and a Control Board in case a SC has over 11 individual shareholders or has a corporate shareholder holding over 50% share (Figure 3-5).

**Figure 3-5: The management structure of a Stock Company**



Source: LeMinh and Walker (2008)

Following the Enterprise Law 2005, a SC is a business organisation which is a separate legal entity and has at least three shareholders whose liability is limited to the amount contributed to the company's share capital. Besides, the share capital of a SC is divided into equal parts as shares (Bui and Nunoi, 2008). Especially, SCs have a right to issue

securities to the public as long as these SCs fulfil the requirements following the Securities Law 2006 and their subordinate legislation (LeMinh and Walker, 2008).

In fact, additional regulation or rules governing companies are applied to business organisations which are operating in special areas such as banking, auditing, insurance and securities. For example, additional corporate governance rules are provided for these organisations which are the Law on Credit Organisation 1997, the Law in Insurance Business 2000, the Law on Accounting 2003, and the Securities Law 2006. However, the Enterprises Law 2005 still is the first step and has a vital role in the Vietnamese corporate governance system even though it is in the early stages of development. Also, it provides a fundamental framework for corporate governance in Vietnamese-listed companies which have received a great deal of interest from investors. As a result, the Vietnamese Government has privatised SOEs in order to improve the efficiency of SOEs as well as corporate governance in these companies.

### **3.5. GOVERNANCE STRUCTURE IN LISTED ENTERPRISES**

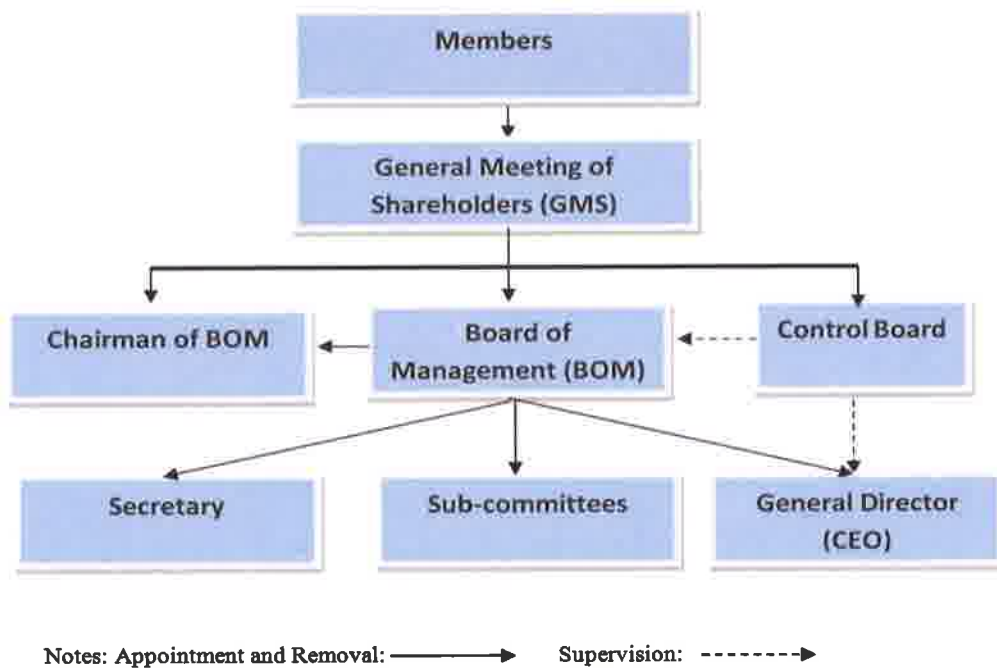
Practically, Vietnamese-listed enterprises are regarded as one of the aspects of the Doi Moi reform. It could be understood as the result of the privatization of SOEs and the diversification in increasing economic sectors in the Vietnamese economy (Vu, 2009). Therefore, it is important to take a look at Vietnamese-listed enterprises in order to distinguish their corporate governance. Furthermore, listed enterprises are companies which have received attention from all sectors of an economy and have been influenced by many factors of economy such as lawsuit, regulations, economic environment. Thus, corporate governance in listed companies is seen as the adjustment between internal governance and external influences. It also could help to draw a general picture of corporate governance in Vietnam later.

#### **3.5.1. Internal governance structure of listed enterprise**

The internal governance structure of listed enterprises is defined as SCs under the provisions of the Enterprises Law 2005. Besides, listed enterprises are public companies, thus, they must abide by the provisions of the Securities Law 2006. Together with these laws, listed enterprises must implement the charter following the

decision of the Finance Minister which is called the Model Charter 2007. Furthermore, in order to ensure a stable development of the stock market and a transparent economy in Vietnam the Ministry of Finance of Vietnam issued the Code of Corporate Governance for Listed Companies (The Code 2007). This Code was developed under the Enterprises Law 2005 and the Securities Law 2006. It is, in fact, a piece of subordinate legislation and is different from a voluntary code of corporate governance in advanced economies such as the OECD Principles of Corporate Governance, the Chinese Code of Corporate Governance, and the German Corporate Governance Code for Listed Companies (LeMinh and Walker, 2008).

**Figure 3-6: Internal Governance Structure of a Listed Company**



Source: LeMinh and Walker (2008)

According to the Code of corporate governance for listed companies, the internal structure of Vietnamese-listed company includes a general meeting of shareholder (GMS), a Board of Management (BOM), a Director/General Director (CEO) and a Control Board. In contrast to SCs, listed enterprises have two additional sections in their corporate governance structure which are sub-committees and secretary. In detail, sub-committees are set up by a listed enterprise’s BOM in order to assist the BOM’s

activities such as development policy, human resources, internal audit, salary and bonus. Together, the BOM is also required to appoint at least one person to act as a company secretary (the Model Charter 2007).

### **3.5.2. General Meeting of Shareholders (GMS)**

According to the laws and regulations which define corporate governance for listed enterprises, a GMS includes all shareholders who have voting shares. The GMS is the highest management body of a listed enterprise. Under the Enterprises Law 2005, the GMS must hold a meeting at least once a year. In addition, the GSM is required to hold an annual meeting. The meeting is to be held within the time-limit, which is within four months from the end of the fiscal year. However, the time limitation for the meeting can be extended within six months from the end of the fiscal year following the request of the BOM. Furthermore, the BOM of listed enterprises can convene extraordinary meetings in certain prescribed circumstances (Bui and Nunoi, 2008).

In the regular meeting of the GMS, the report of the BOM, the report of the Control Board, and annual financial statements are presented, in order to review the efficiency of the company as well as the efficiency in the management of the BOM and the CEO. Besides, the proportion of dividends payable on classes of share and other matters within GSM's authority are considered (LeMinh and Walker, 2008). Particularly, the GSM votes in order to resolve on certain matters related to the charter, the development direction, and reorganisation or dissolution of the company, the operation of the BOM and the Control Board, and other important matters.

### **3.5.3. The Board of Management (BOM) and members of BOM**

Indeed, the duties and powers of the BOM are specifically regulated by laws, regulations and as agreed by the parties in the charter. Under the Enterprises Law 2005 and other regulations, The BOM is the body managing a listed enterprise. According to the Code, the BOM is accountable to shareholders for the company's activities. The role of the BOM is ensuring its obligations in compliance with the law and the company Charter. Besides, it has full authority to make decisions in the name of listed enterprises excluding issues which fall within the authority of the GMS. Additionally, the BOM



exercises the rights and discharges the obligations of the listed enterprises (LeMinh and Walker, 2008). Hence, the BOM has the right to make a decision on or approve the issues below:

- Medium term development strategies and annual business plans of the listed enterprise
- Marketing, technology transfer; loan agreements and contracts for sale of assets valued at 50 per cent or more of the total assets
- Appointment and dismissal of the General Director (CEO) and other key managers
- Due to certain specified matters, the BOM can make recommendation to the listed company.

Therefore, it shows that the BOM holds a more direct role in the operations of the company which seems to be understood as daily management rather than the supervisory board in comparing to the German two-tier board structure. Besides, the BOM decisions are operated similarly to those of GSM that are made by voting at a meeting. The ordinary BOM meetings are held at least once per quarter. Extraordinary meetings are convened if the Control Board, the General Director (CEO), five other management personnel or more than half of the BOM members request these in order to solve certain issues in the enterprise. The decision must be approved by the majority of members attending the meetings (Bui and Nuno, 2008).

The members of the BOM are appointed and dismissed by the GSM of a SC. The size of the BOM is comprised from 3 to 11 members. The members of the BOM might include members who do not hold shares in the enterprise. Furthermore, members of the BOM are unable to be concurrently members of BOMs in more than five other enterprises. Together with this requirement, the numbers of BOM members who are concurrently holding other positions in the managerial apparatus of the listed enterprise is limited. Moreover, following the Enterprises Law 2005, members of the BOM of listed enterprises must include one third of the members being non-executive independent members. These help listed enterprises ensure a separation between the supervisory and managerial roles of the company (Kim, Nam and Tran, 2010). Besides,

the chairman is the leader of the BOM, who is appointed by the GSM or the BOM following the charter of a listed enterprise. The chairman can also be the CEO of the company. The duties of chairman are *inter alia*, convening and chairing meetings and monitoring the execution of BOM resolutions (LeMinh and Walker, 2008).

#### **3.5.4. The Control Board**

In accordance with the Enterprises Law 2005, a Control Board is required to establish in a SC in case the company has over 11 natural shareholders or has an organisation or organisations owning over fifty percent of the total shares of the company. The main function of the Control Board is to supervise the BOM and the CEO in managing and running the enterprise. For example, the Control Board inspects the reasonableness and prudence in the management and administration of business activities. Also, the Control Board have right to access and request all information of the enterprise. As a result, its function is required to evaluate and review all reports from the BOM and departments in the listed enterprise in order to recommend to the BOM or the GSM (Kim, Nam and Tran, 2010). The recommendations of the Control Board are included in its reports to the GSM. The reports include activities of the Control Board, and the result of the supervision of activities and financial status of the company, the BOM, the CEO (LeMinh and Walker, 2008).

The number of Control Board's members is from 3 to 5 members per a term of the Control Board. Similar to the BOM, the Control Board term is under five years and the Control Board's members can be re-appointed for additional terms. In addition, the Control Board is elected by shareholders and distinct from the BOM. The members of the Control Board are persons who are not company managers' relatives, hold managerial positions of the company, and are unnecessary being a shareholder or an employee of the company (The Enterprise Law, 2005). Among the members of the Control Board, there is at least one member who has specialized accounting qualifications in order to work as an independent accountant or auditor. These requirements are following the Code to ensure that members of the Control Board are independent in their activities, and implement their duties in accordance with the law and the company Charter (Bui and Nunoi, 2008).

### 3.5.5. General Director or Director

This section will explain who can be considered as CEOs in Vietnamese enterprises, and will present how the appointment and dismissal of CEO in the enterprises are decided. Those terms are also critically discussed with appropriate reference to related studies.

#### 3.5.5.1. *CEOs as General Directors or Directors in Vietnamese enterprises*

Unlike developed countries, the CEO is seen as a new concept and recently some enterprises have started to use the title. In fact, Vietnamese firms have historically used “General Director” (Tong giam doc) or Director (Giam doc) as the titles for their top executives. Following the development of economic and legal framework, General Director has become a common title in Vietnamese enterprises, especially in listed enterprises. However, there are a few facts which complicate the matter and suggest that the designation of “General Director” as the top executive in Vietnam may not be always correct. First, the Enterprise Law 2005 in Vietnam stipulates that the General Director acts as the legal representative of a listed firm, unless the firm specially appointed the Chairman of the BOM as the legal representative of the firm. Second, the chairman of the BOM is appointed by the largest shareholder in most of listed firms in Vietnam (Bui and Nuno, 2008). Along with the high concentration in ownership structure of Vietnamese-listed firms, the chairman tends to have more power involvements in the daily decision-making of the firm even without holding simultaneously the General Director position. Furthermore, it is commonly understood that when both the General Director and the chairman are responsible for the daily operation of the firm, the chairman is more powerful than the General Director (Tran et al., 2007). Therefore, it is important to define who is a CEO in Vietnamese-listed firms in order to examine CEO turnover.

In fact, the matter of defining who is a CEO in a company also occurred in other countries such as Japan and China. For instance, Kaplan (1994b) who studied the CEO turnover in Japan had to deal with the task of defining CEO turnover in Japanese enterprises. Particularly, the first set of analyses which compares the Japanese president to the U.S. CEO is not always appropriate, since Japanese chairmen commonly have

CEO-type powers. Based on this reason, the second set of the study compares the top several executives in both countries by defining top executives as composed of representative directors. Furthermore, it seems plausible that turnover and performance will be more strongly related in Japan at the level of the top group of executives rather than the individual top executive (Kaplan, 1994b). In contrast, matters of defining CEO were also found in the studies of CEO turnover in the largest transition country, China. Indeed, the top executives of a company in China are chairman and general manager. Similar to Vietnam, CEO is a new concept which is borrowed from Western countries. Besides, there is a difficulty to distinguish clearly when implementing the CEO concept. The role of neither the chairman nor the general manager in the company is the same as that of the CEO in the US and other developed countries.

In order to solve the problems, the prior studies of CEO turnover in China have defined CEO in various ways. For example, Firth et al. (2006) define the chairman as the CEO of the firm, whereas Chen and Wang (2004), and Fan, Wong, and Zhang (2007) regard the general manager of a listed firm as the CEO. According to Fan et al. (2007) the general manager is actually responsible for the firm's day-to-day operations. Meanwhile, Kato and Long (2006b) define the CEO based on the information in the payroll. Thus, the chairman is defined as the CEO if he is on the payroll of the company; otherwise, the general manager is the CEO.

With regard to the fact that there is a majority of Vietnamese-listed enterprises which are SOEs and where the level of ownership concentration is high, the chairman is actually the representative of a governmental agency (Bui and Nuno, 2008). Therefore the appointment and termination of chairmen seems to be less dependent on firm performance. In this case, the firm performance seems not to be appropriate to evaluate the chairman of the listed enterprises. Therefore, the general director of a Vietnamese-listed enterprise is more likely to play the role of a CEO. Furthermore, if chairmen are defined as CEOs in Vietnamese-listed enterprises, the hypothesis of CEO duality seems to fail since the role of general director is ignored. Consequently, the general director is defined as the CEO in this study.

**3.5.5.2. CEO appointment and dismissal**

According to the Enterprises Law 2005, a CEO is selected by the BOM of a listed enterprise. Moreover, a person selected as CEO of a listed enterprise cannot be CEO in other companies. CEOs are responsible for the daily operations of the listed enterprise. Regarding the roles of the CEO which are implementation of the decision of the BOM and responsibility for the daily operation of the company, they have statutory powers to manage and decide on matters such as selecting officers and managers who are not under the power of the BOM (Bui and Nunoi, 2008).

Concerning the conditions of appointment of a CEO in Vietnamese-listed enterprises under the Enterprises Law 2005, LeMinh and Walker (2008) stated that individuals who are state officials and employees, working in military and police forces, leading officers, managers of SOEs, minors and incapable persons, and people prohibited from conducting business pursuant to a court order, are unable to be a CEO. Furthermore, the CEO of a listed enterprise has to satisfy other conditions in certain cases. For example, the CEO of a subsidiary company may not be a relative to a manager, who is authorised representative of the State owned capital portion in or of the parent company.

In fact, the Enterprise Law 2005 fails to present the circumstances in which a CEO can be dismissed. It also does not state whether the CEO can be removed with or without a cause. Particularly, CEOs are required to have a service contract with their companies. Hence, it could be understood that CEO dismissal is according to the Enterprise Law 2005 and the Labour Code 1994 in terms of employment contract (LeMinh and Walker, 2008). It raises the question as to under what circumstances a CEO can be dismissed. Besides, it is believed that there are very few opportunities for an enterprise to dismiss the CEO before the expiration of the service contract. When a problem occurs, and companies find a cause, the obligation of advance notice of at least 30 or 45 days applies to all employees under the Labour Code 1994. Moreover, the company must pay damages to the employee.

### 3.6. CORPORATE GOVERNANCE IN VIETNAM

In fact, corporate governance is still a new term in Vietnamese enterprises. According to Freeman and Nguyen (2006), the concept of corporate governance seems to be not yet established in Vietnam. However, the development of the economy, the increase of administration requirements in Vietnamese enterprise and the development of a legal framework have been gathering the lessons and concepts which relate to corporate governance. For example, the Enterprises Law 2005, the Securities Law 206 and the Code have brought some basic concepts in terms of corporate governance even though they still have shortcomings. To be honest, the Vietnamese enterprises understand the term of corporate governance under the translation as “Quản trị công ty” which is broadly similar to “Administration”. The term is confusing and has yet to take hold as a popular term (Kim, Nam and Tran, 2010). Similarly, Bui (2006) stated that “Quản trị công ty” literally is understood as company management, controlling and managing a company, or business management. These terms seem to refer only to administration and narrow the conception of corporate governance. However, Freeman (2005) argued that corporate governance can be roughly translated into Vietnamese as “Quản trị công ty” even though the translation can also be considered as administration of an enterprise.

Practically, Vietnamese enterprises have tried to implement elements of good corporate governance. Nevertheless, the result of the practices reveal that corporate governance in Vietnam is at the rudimentary stage and ripe for improvement. In Vietnamese enterprises, the basic points of corporate governance are implemented while a deeper knowledge of corporate governance is lacking (McGee, 2010). Indeed, the lacking of awareness on corporate governance is the result of the inflexible implementation in Vietnamese enterprises. Corporate governance practice in Vietnamese enterprises seems to be deeply based on regulatory requirements rather than commitment to a better practice of governance (Bui and Nunoi, 2008). In fact, there are several reasons which explain why the corporate governance in Vietnam has not been a significant topic. For example, in the legal system’s view, enterprise law re-emerged only in 1990 after a long period of absence. The private sector in Vietnamese economy is still young and relatively modest. Moreover, the finance markets are underdeveloped. These reasons also reveal the significant role of understanding the concept of corporate governance.

As a result, a better understanding about corporate governance is a vital factor in upgrading the law of corporate governance and encouraging good corporate governance to support the economic development and international integration process in Vietnam (Bui, 2006). Therefore, this section is trying to present a general picture of corporate governance in Vietnam in order to reveal the shortcomings of corporate governance practices in Vietnamese enterprises.

### **3.6.1. The concept of shareholder rights**

Along with the development of the economy in Vietnam, the practice of shareholder right has been improving. Shareholders have exercised their rights in complying with the Enterprise Law and other relevant laws. In regard to a numerous number of SOEs in Vietnam, the shareholder rights in the enterprises still have shortcomings. For instance, there are a variety of state bodies which respond to the rights of the state shareholder in SOEs. Hence, there is an inconsistency in practising the rights of the state shareholder. Besides, the separation between ownership, business management and business supervision in practising the rights of shareholders is lacking (Tran et al., 2007). Since the representatives of state shareholder always are individuals who are hard to consider as shareholders, the supervision function seems to be weakened.

Moreover, there is the absence of a mechanism for implementing the rights of state shareholders as well as the specific tools for measuring the performance of representative individuals of state shareholders. Therefore, it shows that the efficiency of appointed representatives is hard to evaluate. Besides, the representatives, who are considered as state shareholding agents, might have their self-interests that might conflict with the interests of the State. As a result, it might be difficult to prevent state shareholding agents from availing themselves of making their self-interests if the sufficient supervision in firms is weak (Freeman and Nguyen, 2006).

### **3.6.2. The role of a Board of Management**

According to the laws and regulations, the BOM is a management body of an enterprise in Vietnam. It is entitled to act on behalf of its enterprise and attempt to protect the interest of shareholders. However, performance of BOMs in Vietnamese enterprises, in

fact, is still inefficient. As a result, a BOM's performance is affected by various factors. For example, a majority of members of a BOM act as a manager. Additionally, most chairmen of BOMs are concurrently holding CEO positions. Thus, it reveals that the distinction between supervision of the BOM and the performance of CEO is unclear. Besides, the corporate structure of Vietnamese enterprises is unlike other countries, which has an additional board acting as a supervision function, i.e. the Control Board (Bui and Nuno, 2008). Furthermore, BOM members as managers of the company seem not to be independent.

Indeed, the authority of the BOM is relied on the chairman who is also the CEO of the firm. Authority is concentrated in the BOM and the BOM can dominate the shareholder meetings and directors. Hence, the internal supervision cost is bale to be minimised by blurred distinction between management and ownership. Nevertheless, BOMs in Vietnamese enterprises seem to pay less attention to long-term development strategy, because they are focusing on day-to-day business management (Tran et al., 2007). Also, the BOM fails to keep its vital role in balancing authority between executive managers and shareholders. Since the probability of abusing power by the BOM and CEO increased, supervision from outsiders such as state shareholder or minority shareholders will be inadequate.

### **3.6.3. Weakness of internal supervision**

From the legal point of view, the Enterprises Law 2005, the corporate governance structure of MLLCs and SCs is adequate by having a Control Board which holds the supervision function. In fact, the Control Board is responsible for supervising the BOM and other managers in an enterprise (LeMinh and Walker, 2008). However, activities of the Control Board are rarely based on requests made by shareholders, especially minority shareholders (Tran, 2012). Members of a Control Board are workers in their enterprise and seem to work on a part-time basis. Therefore, the members might pay more attention to their main job rather than supervising the performance of people having high positions in their enterprises. It can be understood that members of a Control Board might depend on the members of BOM and CEO. Thus, the independence of the Control Board is weak (Tran and Koufopoulos, 2012). Besides,



Control Board members seem to have lower positions than members of the BOM even though all of them are elected by shareholders. As a result, most members of a BOM are often majority shareholders who will elect members of the Control Board (Bui and Nunoi, 2008). Hence, it shows that the distinction between ownership and management is unclear. Furthermore, this unclear distinction has weakened the establishment and operation of the Control Board.

To conclude, the current structure of the Control Board creates difficulties in fulfilling successfully its tasks. Indeed, the operation of the Control Boards in Vietnamese enterprises seems to be more formalistic and operating as a department where the decisions of the BOM and CEO are legalised (Tran and Koufopoulos, 2012). The dependence of the Control Board has weakened its function in supervising the BOM and CEO in order to protect the interests of shareholders.

### **3.7. SUMMARY**

In summary, the requirements of international integration following the globalisation trend and the fall of the Soviet Union and Communist countries led Vietnamese's government to make important changes in the development of the country. The remarkable change was started under the Doi Moi economic reform. Under the economic reform, the Vietnamese economy was transformed from a planned economy to a market-oriented economy. Indeed, the reform has created large improvements in the Vietnamese economy. However, there are shortcomings as in other transition countries. In particular, the restructuring of enterprises is the biggest concern, since Vietnam has processed the privatisation in SOEs. Besides, the private sector and foreign sector are still small and have little influence on the economy compared to SOEs. Furthermore, the Vietnamese financial system is reported that as having a weak structure and relies heavily on SOCBs. Besides, information disclosure is low quality which reduces the ability of credit risk managements in Vietnamese banks. Together, property rights, collateral and bankruptcy are weakly defined under the legal and regulatory framework, which reduces the attractions of foreign investors (Golub et al., 2003).

Realising the weakness in the legal and regulatory framework, the Vietnamese Government plays a vital role as do the governments in other transition countries in

improving the framework. Along with legal and regulatory adjustment, the government provided several integration policies and attractive foreign investment policies in order to gain the investment and the presence of foreign enterprises in the Vietnamese economy. It is presented via important laws such as the FDI Law, Companies Law 1990, the Enterprises Law 1999 and 2005, and the Securities Law 2006. Nevertheless, improving the efficiency and effectiveness of SOEs is still an important task, since SOEs are considered as the key factor of the Vietnamese economy. Indeed, the privatisation of SOEs has been processed in order to gain a diversification in the ownership of SOEs and to improve the efficiency and effectiveness of SOEs. However, the progress is still incomplete. Both private and foreign enterprises are still underdeveloped as a result of the lack management skills (Ngo, 2012). This is similar to assessment in other transition countries of Luthans et al. (2006). Therefore, the conflict of interests between principal and agents would occur, since managers and state officials are able to gain private benefits because of the underdeveloped legal and regulatory frameworks (Peng, 2001). Thereby, it can be assessed that corporate governance in Vietnamese enterprises is still inefficient.

Indeed, the corporate governance in Vietnamese-listed enterprises is affected by the governance structure following an incomplete legal framework. Particularly, Vietnamese-listed enterprises are applying two-tier board structure which includes a BOM and a Control Board. However, the BOM is able to dominate the shareholder meeting and director, and it, therefore, weakens distinction between ownership and management and the internal supervision. Also, the BOM fails to play a vital role in balancing authority between executive managers and shareholders. Since the probability of abusing power by the BOM and CEO is increased, the supervision from outsiders such as state shareholders or minority shareholders will be inadequate. The Control Board lacks independence, since its members are normally concurrent employees. The lack of independence in a Control Board reveals inefficiency and ineffectiveness of the board in supervising the BOM and CEOs (Tran et al., 2007).

**CHAPTER FOUR: HYPOTHESES DEVELOPMENT**

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#### 4.1. INTRODUCTION

In order to fulfil the aim and objectives of this study, the hypotheses are developed based on the literature and practice in Vietnam. Firstly, this study attempts to evaluate the internal disciplinary mechanism which determines CEO turnover in order to examine the internal corporate governance system. Indeed, the weak internal corporate governance system can be presented through the efficiency of the disciplinary mechanism (Cai and Chen 2004; Kato and Long, 2006). Hence, Chapter Three reviews the literature on CEO turnover in order to distinguish the determinants of CEO turnover. Based on the review on Chapter Two, the chapter has built up the conceptual framework for the study. In fact, the conceptual framework plays a significant role in guiding the research to success. In detail, the framework covers various important factors that have been researched in previous studies including firm performance, ownership structure, state ownership, firm leverage, firm size, board composition, board size, leadership of board, CEO ownership, CEO tenure, and CEO age.

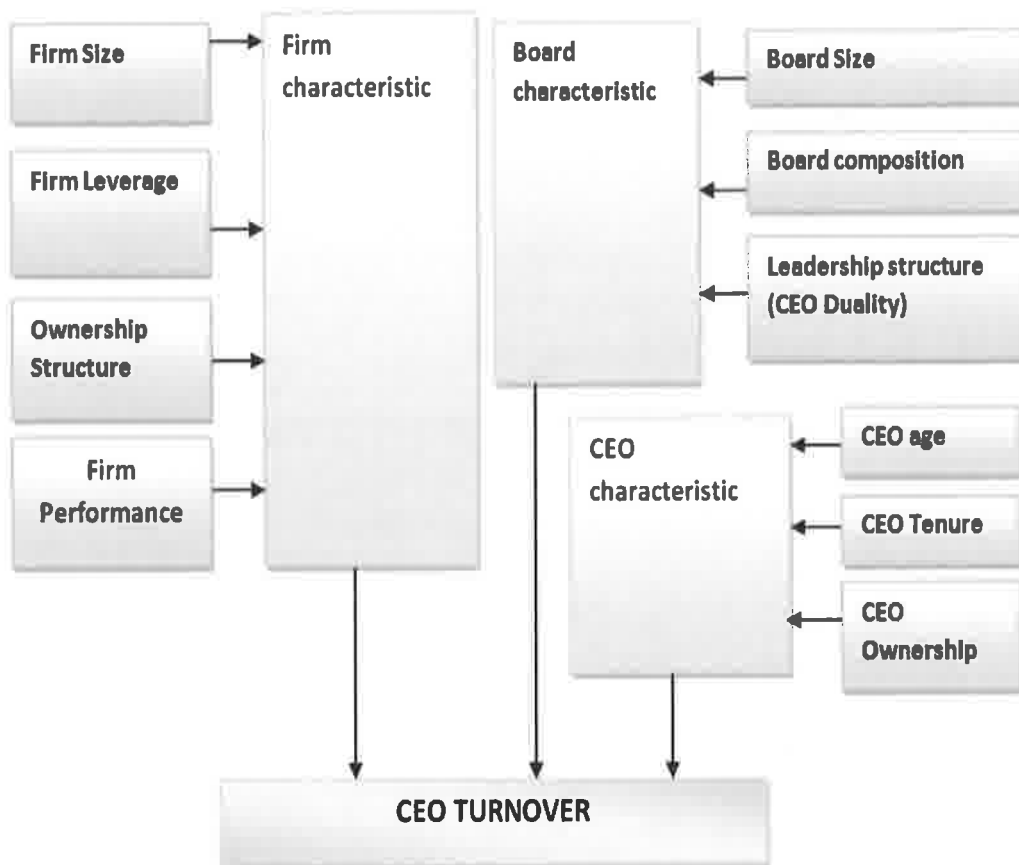
Based on the conceptual framework and practices in Vietnamese-listed enterprises the hypotheses are developed for the research. Particularly, the hypotheses are divided into four groups. The first three groups include the hypotheses related to CEO turnover determinants. The hypotheses help to examine several factors that influence the CEO turnover decisions in Vietnamese-listed enterprises. Besides, the hypotheses present the supposed effects of each factor on CEO turnover. Meanwhile, the fourth group of hypotheses includes hypotheses which help to evaluate the link between firm performance and CEO turnover. The hypotheses are going to be developed based on the examination of the effects of important factors on the link between firm performance and CEO turnover. These factors are ownership structure, board composition, and CEO ownership. In detail, the hypotheses present the research questions which result in showing the sensitivity of CEO turnover to firm performance.

#### 4.2. CONCEPTUAL FRAMEWORK

Developing on the literature reviewed in Section 2.2, this thesis relies on the argument that follows the determinants of CEO turnover in order to build up the conceptual framework. Since CEO turnover could reveal the efficiency of the corporate governance

mechanism and practices, many researchers have paid attention to the principal function of corporate boards in managing CEOs. Practically, the nature of CEO dismissal decisions is based on firm performance which presents the result, efforts and ability of CEOs (Coates and Kraakman, 2010). Since CEOs are responsible for poor firm performance, they have to deal with the probability of dismissal. Nevertheless, the literature shows that firm performance is not the only factor influencing CEO turnover, but it also includes other factors such as ownership structure, board composition and CEO ownership which have some impacts on CEO turnover (Bushman, Dai and Wang, 2010). Thereby, the conceptual framework which is based on literature of CEO turnover has been built in order to fulfil the aim of this study as shown in the Figure 4-1.

**Figure 4-1: Conceptual framework**



In Figure 4-1, the proposed associations which are going to be examined by the thesis are presented. In fact, the concepts in the framework illustrate the suggested

associations which have effects on CEO turnover. Especially, the main proposed association is the relationship between firm performance and CEO turnover. Meanwhile, other concepts of firm characteristics, board characteristics, and CEO characteristics surround the main correlation and impact CEO turnover. Indeed, the model is based on the model of CEO dismissal from the study of Fredrickson, Hambrick and Baumrin (1988). Besides, the conceptual framework of this study includes various factors which have been examined in previous studies about their impact on CEO turnover. Particularly, previous studies indicated that firm performance is the main factor influences CEO turnover. Together, other factors related to firm characteristics which are ownership structure, firm leverage and firm size have received attention on their influences on CEO turnover.

Considering the relationship of ownership structure to CEO turnover, ownership types and ownership concentration are examined in prior studies. In fact, the majority of prior studies in developed countries have focused on the role of blockholder and its impacts on CEO turnover (Hambrick and Finkelstein, 1995; Denis, Denis and Sarin, 1997; Dahya, Lonie and Power 1998; Franks, Mayers and Renneboog, 2001). Besides, other studies have considered the effects of institutional ownership playing on the probability of CEO turnover (Dahya et al., 1998; Dahya and Power, 1998; Parrino, Sias and Starks, 2003; Strivens, Espenlaub and Walker, 2008). In addition, the effects of concentration of ownership are evaluated by Denis, Denis and Sarin (1997), and Parrino, Sias and Starks (2003). Meanwhile, the studies in developing countries and transition economies have not only focused on the large shareholder or blockholder, but they have also concerned the concentration of ownership and outsider shareholders.

Regarding the characteristic of the transition economies, the firms commonly are controlled by large shareholders who hold a large proportion of firms' shares. Taking China as an example, the large shareholder in listed companies is usually the state (Chi and Wang, 2009). Regarding the level of concentration in ownership structure of Chinese enterprises, few studies have attempted to distinguish its effects on CEO turnover (Chen et al., 2006, Ding, et al., 2009). Along with those studies, there are several studies concerning the close relationship between managerial turnover and ownership structure in Russia (Frydman, Pistor, and Rapaczynski, 1996; Filatotchev,

Wright, and Bleaney, 1999; Filatotchev et al., 1999; Bevan et al., 2001; Muravyev, 2003a; Abe and Iwasaki, 2010).

One of a firm's characteristics, firm leverage, is the factor which represents the influencing the firm performance measurement and therefore it affects the decision of CEO dismissal (Denis and Denis, 1995; Huson et al., 2004). Prior studies mentioned that the more complex and diversified a firm is, the more difficult is the CEO turnover decision. As a result, this firm gets more difficult in judgement of CEO efforts and firm performance (Parrino (1997; Berry et al. 2006). In addition, the complexity and diversification of a firm are possibly representing via firm size. Hence, firm leverage and firm size are added in the framework.

Furthermore, the role of the board of directors on CEO turnover cannot be denied. Especially, the independence of the board plays a vital role in CEO turnover. As referred in prior studies, independence of the board increases the sensitivity of the link between firm performance and CEO turnover (Hwang and Kim, 2009; Masulis and Mobbs, 2009). In fact, the independence of the board of directors is demonstrated by how board composition is created through the number of outside directors who pay more attention to the efficiency of CEOs in operating their firms and are considered as independents since they have less self-interest in firm performance (Fredrickson, Hambrick, and Baumrin, 1988). Besides, board size is considered as an influencing factor to the CEO turnover process in corporations. Meanwhile, the leadership structure of a corporate board influences the board of directors operates and the power of the CEO when a CEO also holds the chairman position.

Regarding CEO characteristics, the factors which consist of CEO ownership, tenure, age, education and gender are listed in the framework. These factors could explore the power of the CEO which does impact on CEO turnover and the sensitivity of CEO turnover to firm performance. Among these factors, CEO ownership is indicated as a notable indicator of CEO turnover in CEO characteristics. Even though there is an argument that a CEO holding corporate shares could be motivated in operating the corporation (Denis, Denis, and Sarin, 1997), other studies suggest that CEO ownership weakens the link between CEO turnover and firm performance (Morck et al., 1988;

Denis and Denis, 1994) or has negative correlation to CEO turnover (Ertugrul and Krishnan, 2011). In addition, the power of CEO would be represented by CEO age and CEO. For example, long tenure may be an indicator of a CEO's entrenchment (Fredrickson et al. 1988; Mallette and Fowler 1992). In addition, previous research about CEO tenure found that the more power a CEO has, the longer her/his tenure (Allen and Panian, 1982; Hambrick and Fukutomi, 1991; Ocasio, 1994). While, the retirement police of a firm which is a factor influencing CEO replacement is reflected via the age of CEOs. On the other hand, CEO education and gender have received less attention than other factors (Eisfeldt and Kuhnen, 2010). Bhagat, Bolton and Subramanian (2010) stated that CEO education has insignificant role on making decision by a firm to remove its current CEO. Thus, CEO education is not considered as a determinant of CEO turnover in the study. Similarly, the effects of CEO gender are ignored. As a result, Becker-Blease, Susan and Stater (2010) stated that there is no evidence to show the relation of gender with involuntary dismissals.

As mentioned in Chapter Two, there is little attention given to industry characteristic which consist of industry competition, industry performance and the stage of the industry. Furthermore, the effects of industry characteristics on CEO turnover are unclear. For example, CEOs might be dismissed if their firm performance is lower or higher than industry average. In addition, the nature of the accounting measurement of firm performance could reveal the indirect effects of industry competition and industry performance in order to evaluate CEOs. Hence, the industry characteristics are not included in the framework of the study. Similarly, the framework hides the political connection which has been researched in several studies in regard to the majority of SOEs in the economy such as in China. The political connection would be represented via the ownership structure of firms. The differences between the firms which have state shareholders and others will be discussed. The influences of political connection would be evaluated via the effects of state ownership on CEO turnover.

### **4.3. HYPOTHESES DEVELOPMENT**

In this section, the hypotheses of the study which are based on the conceptual framework will be developed in order to fulfil the aim and objectives of this study.



### 4.3.1. Determinants of CEO turnover in Vietnam

According to the discussion in Chapter Two, the CEO turnover decision not only depends on firm performance but it is also influenced by other factors such as firm characteristics, CEO characteristics, board characteristics and industry characteristics. As noted by Van Dalsem (2010), prior studies have pointed out several determinants of CEO turnover which include firm performance, ownership structure, firm size, characteristics and size of board, or political relationship. Since the aim of this study is to explore the determinants of CEO turnover in Vietnamese enterprises, several hypotheses are developed to fulfil the aim.

#### 4.3.1.1. *Firm performance*

In accordance to a huge number of studies on CEO turnover in developed countries, firm performance is a key determinant of CEO turnover. There is no doubt that firm performance is considered as the clearest determinant of CEO turnover. Since firm performance could be measured by financial performance, accounting performance, stock performance or other measurements, the efforts of CEOs can be judged. Indeed, financial performance includes a variety of measurements such as earnings per share (EPS), return on investment (ROI) and net income after tax (NIAT) (Grossman, 2000), return on assets (ROA), profitability, capital employed and the percentage of sales resulting from new products (Selvarajan et al., 2007; Hsu et al., 2007). Meanwhile, accounting performance includes expenses divided by sales, inventory loss, defects, sales return, total operating expenses divided by sales (Wright et al., 2005). Based on those measurements, the CEO's efforts can be evaluated.

Regarding the important role of firm performance, a notable study of Denis and Denis (1995) suggested that significantly poor operating performance is a basic reason of CEO turnover. Meanwhile, Huson, Parrino and Starks (2001), used the data of 1316 CEO turnovers for 8424 firm years from 1971 to 1994, and found that the likelihood of outside succession and the frequency of forced CEO dismissal increase over time. Besides, Huson, Parrino and Starks (2001) evaluated that the most important determinant of forced CEO turnover is the firm performance in compared to the firm's previous performances or other firms and with the expectations of the board. On the

other hand, the relationship between CEO turnover and firm performance is considered as the mirror of the efficiency of the corporation's governance mechanisms. It was supported by prior studies which hypothesized the firm performance-CEO turnover sensitivity (e.g. Kang and Shivdasani, 1995; Kaplan, 1994; Lausten, 2002; Renneboog, 2000; Volpin, 2002; Kaplan and Minton, 2006; Jenter and Kanaan, 2010; Kaplan and Minton, 2012). Also, Bhagat and Bolton (2008) iterate the findings of previous studies that firms, which have effective corporate governance, have a higher sensitivity of CEO turnover to poor firm performance.

In line with studies in developed countries, a similar result is found. For example, a cross countries study of Gibson (2003)<sup>1</sup> represented the likelihood of CEO turnover increases along with the poor performance of firms. Meanwhile, Eriksson (2005) found that a higher probability of CEO turnover followed the poor firm performances in the Czech Republic and Slovakia. Along with those studies, Abe and Iwasaki (2010) researched the CEO turnover in Russia and stated that firm performance plays a role as a trigger of CEO dismissal. Nevertheless, the majority of studies provide unclear evidence that firm performance affects the probability of CEO turnover. There is some evidence which denied a significant correspondence between CEO turnover and firm performance (Kapelyushnikov, 2001; Dolgopyatova and Kuznetsov, 2004; Goltsman, 2000; Yasin, 2004; Rachinsky, 2005). Contrastingly, Muravyev (2003a) and Kapelyushnikov and Demina (2005) documented that poor firm performance is positively correlated to CEO turnover. Although, these studies represent a clear statement that poor performance correlates to the increase of the likelihood of CEO turnover, they are still in the minority.

With regard to China, which is one of the transition and emerging economies and has similar corporate governance systems to Vietnam, there are several studies which have examined CEO turnover and its correlation to firm performance in China (Groves et al., 1995; Aivazian et al., 2005; Fan et al., 2007; Cheng et al., 2008; Chang and Wong, 2009). Even though there is a limitation of studies on CEO turnover, the findings confirm that CEO turnover correlates to firm performance (Groves et al., 1995; Kato

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<sup>1</sup> Gibson (2003) used a sample of over 1,000 firms in eight emerging markets, which include Thailand, Taiwan, Malaysia, Mexico, Korea, India, Chile, and Brazil.

and Long, 2005; Chi and Wang, 2009). For example, Kato and Long (2006) analyse 638 Chinese-listed companies with 2181 firm-year observations between 1999 and 2002 and report that CEO dismissal is more sensitive to performance of firms. Likewise, Conyon and He (2008) by examining 1,200 Chinese-listed firms during 1999–2006 confirm the prior studies that CEOs and chairmen who have poor performance are more likely to be dismissed. Furthermore, confirming the finding of previous studies both in Western countries and China, Hu and Leung (2010) report that the likelihood of CEO turnover is negative associated with firm performance by using a sample of Chinese-listed SOEs during the period of 2001-2005. Therefore, it is able to predict that CEO turnover in Vietnam is under the influence of firm performance.

*Hypothesis 1a: There is a significant negative correlation between CEO turnover and firm performance in Vietnamese-listed enterprises.*

#### **4.3.1.2. Firm characteristics**

In terms of firm characteristics, firm size, firm leverage, institution ownership structure and state ownership are the main factors which are used to develop the hypotheses of this study.

##### **Firm size**

Theoretically, the literature presents that the findings of studies on the correlation of firm size to CEO turnover seems to be not unified. For example, Weisbach (1988) investigated that there is no strong relationship between CEO turnover and firm size, meanwhile, several other studies documented that the probability of CEO turnover is higher in larger firms (Warner et al., 1988; Harrison et al., 1988; Parrino, 1997; and Huson et al., 2004). According to Offenbergh (2009), an increase on CEO turnover is the result of firm size increase. No evidence was found that smaller firms have higher rates of CEO turnover than larger firms. As a result, larger firms seem to be more diversified than smaller firms. It leads firms to find it hard to make decisions in replacing CEO and finding CEO candidates in order to fulfil the complex nature of diversification and managerial ability (Parrino (1997; Berry et al. 2006). Hence, focused firms may experience more forced turnover compared to diversified firms (Sponholtz, 2006).

Although the findings of prior researches are different, it cannot be denied that the top level executives in large firms are dismissed more frequently than in small firms (Offenberg, 2009). As a result, large firms typically have a larger internal pool of management talents. Therefore, those factors influence the CEO turnover and support the empirical finding of a significantly positive relationship between CEO turnover and firm size (Sponholtz, 2006). Similarly, Lausten (2002) and Eriksson et al. (2001) also found the positive relationship between firm size and CEO turnover by using Danish data. In regard to a transition economy like the Vietnamese economy, the diversification in Vietnamese enterprises is small, therefore the assumption is that the level of diversification in Vietnamese enterprises is ignored. It is assumed that the level of firm size is the factor impacting CEO turnover.

*Hypothesis 1b: There is a positive relationship between CEO turnover and firm size in Vietnamese-listed enterprises.*

### **Firm leverage**

Based on the literature of CEO turnover, the relationship between firm leverage and CEO turnover has received little attention. According to Adams and Mansi (2009), firm leverage is used to control for differences in the capital structures of firms, and therefore its effect on CEO turnover could be presented by different approaches. For instance, firm leverage is one of the factors influencing the firm performance measurement. Particularly, leverage has been above normal for the previous year or two when a CEO is dismissed (Denis and Denis, 1995; Huson et al., 2004). Together with those studies, in order to examine the impact of the CEO on corporate financial policy, Cao and Mauer (2010) who used firm leverage as a measurement, found that the frequency of CEO turnover is much less when the firm never changes its debt policy which is leveraged or unleveraged. The finding confirms that there is a correlation between the level of firm leverage and CEO turnover. In other words, leverage is another aspect of firm performance. As a result, it has been used as a control factor in the researches of the link between CEO turnover and firm performance. The evidence is found by looking at managerial turnovers and firm performance (Franks, Meyer and Renneboog, 2001; Gilson and Vetsuypens, 1993). The similar result was found in the studies of Berger et

al. (1997) and Safieddine and Titman (1999), which presented that CEO turnover is associated with subsequent increases in firm leverage when they found the evidence consistent with operating and stock performance improvements. Thus, the firm leverage can lead to the replacement of the CEO by the board in hopes of improved performance.

On the other hand, leverage is considered as a disciplinary power on CEOs by managing cash flow and financial performance under their control. CEOs, therefore, may prefer lower leverage because they are more likely to be dismissed when firm leverage is high (Cohen, Hall and Viceira, 2000). However, a high likelihood of CEO turnover may be a result of high leverage when this is high by the implementation of riskier financial policy (Coles, Daniel and Naveen, 2006). Therefore, it is assumed that high leverage positively correlates to CEO turnover.

*Hypothesis 1c: There is a positive correlation between firm leverage and CEO turnover in Vietnamese-listed enterprises.*

### **Ownership structure**

Indeed, ownership structure has played a vital role in CEO turnover decisions. There is an abundance of international empirical evidence on the role of large shareholders which is one aspect of ownership structure (Nguyen-Dang, 2009). In terms of ownership structure, types of ownership are studied to examine their relationship to CEO turnover. Together, the level of concentration in ownership is considered as a factor which correlates to CEO turnover.

First of all, state shareholding and its effects have become important to studies in transition countries. In regard to China which is one of the transition and emerging economies and has similar corporate governance systems to Vietnam, there are several studies which evaluated the influence of state ownership on CEO turnover. For example, Sun and Tong (2003), by evaluating the changes in performance of SOEs listed in Shenzhen and Shanghai stock exchanges during the period 1994-1998, found a negative influence of state ownership on CEO turnover. Additionally, using the data of 634 Chinese-listed firms during the period of 1998-2002, Kato and Long (2006b) found that the linkage between CEO dismissal and performance of firm is weaker for listed

firms controlled by the state. Besides, Chi and Wang (2009) classifies ownership by the type of owner and the concentration of ownership, and finds that the sensitivity of CEO turnover to performance is weaker in state-controlled firms than in non-state firms. The finding is consistent with the result of previous studies using Chinese data that state shareholding, especially direct government shareholding, weakens disciplining of managers (Groves et al., 1995; Aivazian et al., 2005; Firth et al., 2006). In fact, there are a huge number of SOEs in the Vietnamese economy as well as in Vietnamese stock markets. Therefore, the following hypothesis is posited.

*Hypothesis 1d: The state ownership has negative relation to CEO turnover in Vietnamese-listed enterprises.*

Along with state shareholding, outside ownership has been reported to have a correlation with CEO turnover. A notable finding from the study of Denis, Denis and Sarin (1997) also documents the likelihood of CEO turnover is positively related to the existence of an outside blockholder. In regard to the reforming progress in transition countries, privatisation is one of the methods, which creates differences in ownership structure in those countries' enterprises. Along with the increase of diversification in ownership, the effects of ownership structure have become important to understand. However, there are comparatively few studies on the effects of ownership structure on CEO turnover in transition countries, especially compared with the large number of studied undertaken in developed countries. For example, there are several studies concerning the close relationship between managerial turnover and ownership structure in Russia (Frydman, Pistor, and Rapaczynski, 1996; Filatotchev, Wright, and Bleaney, 1999; Filatotchev et al., 1999; Bevan et al., 2001). Particularly, Abe and Iwasaki (2007) reported that the common finding of those studies reveals that outside ownership is statistically high and positively associated with the frequency of CEO turnover. Along with the statement, Muravyev (2003a) investigates over 400 Russian-privatised firms and finds that higher rates of CEO turnover are associated with outside ownership.

Indeed, institutional ownership, which is one type of outside ownership, has received more attention than others. For instance, Parrino, Sias and Starks (2003) have been interested in the role of institutional investors playing on the probability of CEO

turnover and have examined changes in equity ownership around forced CEO turnover. By observing and analysing 583 CEO turnovers from large firms in the period from 1982 to 1993, the findings revealed that the number of institutional investors and aggregate institutional ownership decline in the previous year to forced CEO turnover. As a result, institutional investors are more concerned and interested in prudent securities which are better informed or are engaged in momentum trading. Practically, Strivens, Espenlaub and Walker (2008) have reviewed the literature on the relationship between CEO turnover and firm ownership structure in the UK, and indicated that the findings in the UK are mixed. For example, institutional investors have a significant positive influence on routine turnover and a significant negative effect to non-routine turnover, which are the findings by Dahya, Lonie and Power (1998). Meanwhile, Dahya and Power (1998) found no significant relationship between institutional shareholdings and CEO turnover by using a 10% dummy for large institutional shareholdings.

Even though the findings of prior studies on the relationship of institutional ownership to CEO turnover are mixed, it is expected that shareholding of institution is able to bring beneficial influences on corporate governance of firms in transition countries. Therefore, a CEO is more likely to be fired for poor performance. It leads to a hypothesis that is;

*Hypothesis 1e: The presence of institutional shareholders increases the likelihood of CEO turnover in listed enterprises.*

Compared with institutional ownership and state ownership, the influences of shareholding of individuals (excluding CEOs) on CEO turnover seem limit or are be clearly distinct in previous studies. In fact, the influences of individual ownership are normally considered in the studies related to family firms. However, it is arguable that individual shareholding has a relation to CEO turnover. Particularly, the studies on the relation of outside ownership or large shareholders to CEO turnover may include individual shareholding. Therefore, this study proposes a hypothesis relating to the relationship between individual ownership and CEO turnover as below;

*Hypothesis 1f: Individual shareholding except CEO ownership has a correlation with CEO turnover.*

Together with ownership types, ownership concentration has been examined to reveal its correlation with CEO turnover. In accordance to Nguyen-Dang (2009), the power of large shareholders could be represented by the level of ownership concentration. It is arguable that the presence of more shareholders exhibits a lower level of ownership concentration than other firms. Therefore, a firm with a small number large of shareholders has higher level in ownership concentration. However, the findings of prior studies are mixed. For instance, Kaplan and Minton (1994) indicated that the existence of large shareholders increases the probability of CEO and top management team's replacement when firm performance is poor, by examining Japanese firms. Meanwhile, Franks and Mayers (2001) found an inverse correlation between the presence of large shareholders and CEO turnover. Besides, Goyal and Park (2002) found that firms having the presence of block-holders are less likely to fire CEOs for poor performance. Similarly, a negative correlation between the presence of large shareholders and CEO turnover was found by examining the collected data from German firms (Franks, Mayers and Renneboog, 2001).

Considering the situation in transition countries, ownership concentration is still high such as in China and Vietnam (Truong et al., 2009). Regarding this fact, Kato and Long (2006a, 2006b) and Conyon and He (2008) have attempted to find out whether CEO turnover is more sensitive to firm performance in firms with a major controlling shareholder. They have documented that a CEO is more likely to be removed in firms which have a major controlling shareholder.

Based on those studies' findings above, it seems to reveal that the large shareholding reduces the CEO turnover rate in those companies. In other word, the concentration in ownership negatively correlates to CEO turnover. The next hypothesis is proposed as;

*Hypothesis 1g: Ownership concentration positively relate to CEO turnover in Vietnamese-listed enterprises.*

#### **4.3.1.3. Board characteristics**

In the section, the following hypotheses are developed based on the factors including board size, board composition and leadership structure of board.



**Board size**

Although few studies in transition countries have paid attention to the impact of board size on CEO turnover, some studies found that there is no significant relationship between board size and CEO turnover (Kato and Long, 2006; Muravyev et al., 2009). However, previous studies in developed countries suggested that board size is considered as a determinant of CEO turnover (Fredrickson et al., 1988; Parrino and Weisback, 1999). For example, Franks, Mayer, and Renneboog (2001) indicated that large boards may not dismiss poorly performing CEOs promptly. As a result, the board of directors might become less cohesive when size of the board increases, while the possibility of CEO turnover is increased for firms having smaller boards (Wu, 2000).

Furthermore, Jensen (1993) confirms that having a bigger sized team may lead to an ineffectively functioning board. Similar to those studies, Lipton and Lorsch (1992) addressed that agency costs and myopia increase with board size. Meanwhile, Yermack (1996), by using a sample of over 450 large US enterprises, finds that there are a higher probability of CEO turnover following poor performance and a greater profitability in the enterprises with smaller boards. The finding supports Jensen's theory. Furthermore, Coles et al. (2008) documented that a larger board seems to be optimal for more complex firms and need greater information requirement for evaluating the CEO's performance. Therefore, in a larger board, the decision of CEO dismissal requires a larger number of votes, thus, it may limit the probability of CEO turnover.

With regard to the findings in the developed countries, this study assumes that the size of boards has influence on evaluating the efficiency of boards in Vietnamese enterprise. Thus, the impacts of board size on CEO turnover will be examined in order to evaluate the efficiency and effectiveness of board operation. Therefore, it is expected that:

*Hypothesis 2a: Board size has a negative relationship with CEO turnover in Vietnamese enterprises.*

### **Board composition**

Previous research on CEO turnover has concentrated on board composition, especially on the independence of the board. It is believed that the independence of the board leads to better corporate governance and reduces the agency cost (Masulis and Mobbs, 2009; Ertugrul and Krishnan, 2011). Particularly, the independence of the board is considered by the number of outside directors who is considered as more independent than insider directors. Indeed, there are empirical evidences that indicate that outsiders are better at monitoring than insiders, since the outsiders are generally considered to have experience in conducting reviews for firms' operation. Besides, outside directors are seen as independents because they are less likely to be involved in the operational activities of firms (Fredrickson et al., 1988). Based on this point of view, Brunello, Graziano, and Parigi (2003) documented that a board of directors consisting of more outsiders is more intensively to dismiss a poorly performing CEO.

Regarding the incumbent situation in Vietnamese enterprises, it has been addressed that there is weak of internal control in the enterprises (Tran, 2012). The reason for the problem is the lack of independence of board members. Generally, members of a Control Board are workers in their enterprise and seem to work in a part-time task of supervising the CEO and the operation of the BOM. Thus, the members seem to pay more attention to their main job rather than supervising the performance of other people. Besides, members of Control Board might depend on the members of the BOM and the CEO. As a reason, most members of the BOM are usually large shareholders who will elect members of the Control Board. Hence, Control Board members have lower positions than members of the BOM, although both of them are elected by shareholders (Bui and Nunoi, 2008). Therefore, it is difficult for members of the Control Board to supervise the people who have higher positions than them. In fact, the reform of corporate governance in Vietnamese firms requires listed firms to introduce independent directors to their BOM, who are not subject to the influence of management and are supposed to carry their duties independently. If such arrangements are effective, it is expected that:

*Hypothesis 2b: The number of independent directors on the board increases the likelihood of CEO turnover in Vietnamese enterprises.*

### **Leadership structure of board**

Basically, the leadership structure of a board presents the role of chairman as leading the board of directors. Particularly, the chairman is responsible for managing the CEO by designing compensation packages, setting goals, and evaluating CEO performance. However, the leadership structure of a board, in fact, is divided into two types which are the one-tier system and the two-tier system. In the two-tier system, there is a different person as the board chairman who is separated from the CEO, while the one-tier system, the CEO is concurrently the chairman of the board (Horner, 2010). On the other approach, the one-tier system can be understood via the term of CEO duality. Based on the literature, the principal-agent problem may occur if a single individual plays both of these roles in a firm (Brickley, Coles and Jarrell, 1997).

According to Lechem (2002), the chairman of a board of directors wields power to influence the board, the CEO and other managers, thus the chairman responds to assemble different views, ideas and discussions to enable an effective and harmonious decision-making. When the CEO and chairman is the same person, the roles of board in monitoring and evaluating the performance of the top managers would be weakened (Coles and Hesterly, 2000). Similarly, other studies documented that the effectiveness of a board in monitoring top managers is reduced by the concentration of decision control and decision management in one person (Fama and Jensen, 1983; Jensen, 1993; Goyal and Park, 2002). As reduced the monitoring of top managers, the concentration of decision control might exacerbate agency problems and influence the CEO dismissal decision. Hence, when the lack of independent leadership in a firm with a single CEO–Chairman reduces monitoring by the board and makes it difficult for the board to remove a poorly performing CEO, the probability of CEO turnover is likely to be less sensitive to performance in a firm with a combined CEO/chairman position than in firms with two separate positions.

In the Vietnamese case, authority is concentrated in the BOM and the BOM are enable one to dominate the shareholder and director meetings. However, authority of the BOM

is relied on the chairman who commonly is concurrently CEO of the firm. Since the probability of abusing power by the BOM and CEO increased, the supervision from outsiders such as state shareholder or minority shareholder will be inadequate. Therefore, it is supposed that CEO duality weakens the likelihood of CEO turnover.

*Hypothesis 2c: The likelihood of CEO turnover is decreased by CEO duality in Vietnamese-listed enterprises.*

#### **4.3.1.4. CEO characteristics**

Along with those factors above, CEO age, CEO tenure and CEO ownership which are factors of CEO characteristics are considered to develop the following hypotheses.

##### **CEO age**

Even though the competence of a CEO can increase by acquiring more experience with time, the firm would find it beneficial to dismiss the current CEO if the firm starts to doubt the ability of the CEO (Coates and Kraakman, 2010). It seems to show that firms avoid dismissing aged CEOs. In accordance to Jensen and Murphy (1990), it is harder to replace older CEOs in their position because they are waiting to retire. Hence, shareholders generally adopt retirement policy in order to dismiss aged and incompetent CEOs (Fredrickson, Hambrick, and Baumrin, 1988).

However, retirement policy seems to reveal only a weak relationship of CEO age with CEO turnover. In order to distinguish the relation between forced CEO turnover and CEO age, Murphy and Zimmerman (1993) reported a significant correlation between CEOs' age and CEO turnover. A notable study of Warner, Watts and Wruck (1988) presented that the median age of dismissed CEOs who are reported by the firm to be retiring is 65.4 years, while CEOs who are replaced without retirement announcement from firms have a median age of 59 years. Thereby, these findings lead to the justification which is that firms might find it less costly to retain a poorly performing CEO who is near retirement than to force the resignation, while younger CEOs are more likely to be dismissed. Moreover, Jensen and Murphy (1990) confirmed that the possibility of CEO turnover following the result of poor company performance

increases among younger managers. Therefore, the effects of CEO age on CEO turnover is developed as one of the study's hypotheses

*Hypothesis 3a: The likelihood of CEO turnover is higher in Vietnamese-listed firms having younger CEOs.*

### **CEO tenure**

Theoretically, CEO tenure seems to have a similar role to CEO ownership as a proxy for management entrenchment (Morck, Shleifer, and Vishny, 1988). Practically, CEOs seem to create the perception that they are irreplaceable to the shareholders and board of directors by having long-service ((Jovanovic, 1979). Based on the matching theory, it suggests that there is the risk of termination which could rise as bad CEO-firm matches. Hence, CEOs in good matches are more likely to have longer tenure (Brookman and Thistle, 2009). Together, Denis, Denis, and Sarin (1997) documented there is statistically insignificant correlation between tenure and the probability of CEO dismissal.

Nevertheless, there are studies representing the relationship of CEO turnover with CEO tenure. For instance, Lausten (2002) finds a positive association between tenure and CEO turnover. In contrast, there are evidences informing the correlation between CEO turnover and executives' tenure (Goyal and Park, 2002). Indeed, CEO tenure represents the CEO power and therefore the more power a CEO has, the longer her/his tenure (Allen and Panian, 1982; Hermalin and Weisbach, 1998; Hambrick and Fukutomi, 1991; Ocasio, 1994). Furthermore, power enables CEOs not only to increase support for them, but also it counters threats to replace CEOs. Thus, replacements of CEOs are less likely to take place when CEO power is institutionalized (Hambrick and Fukutomi, 1991). Based on those statements, the following hypothesis is posited.

*Hypothesis 3b: CEO tenure has negative relation to CEO turnover in Vietnamese-listed enterprises.*

### **CEO ownership**

Along with CEO duality, CEO ownership is a concept that could reveal the power of CEOs. However, the literature on CEO ownership has created a controversial question as to whether it has a negative correlation to the likelihood of dismissals of CEOs. For example, Core et al. (1999) stated that CEOs are more likely to act like shareholders and attempt to maximise firm value if they are holding a significant amount of their firm shares. In this case, the shareholder-manager goal congruence in the firm is improved and the firm less needs for disciplinary action (Denis, Denis, and Sarin, 1997; Dahya, Lonie and Power, 1998). Hence, it can be assumed that CEO shareholding may be inversely correlated to CEO turnover. In contrast, CEO ownership can insulate the CEO from internal monitoring efforts by increasing her/his power. CEOs with large shareholding could entrench themselves and seem to engage in excessive self-serving behaviour. Therefore, they are less likely to support any decision to terminate their own employment (Morck, Shleifer, and Vishny, 1988). This finding confirms the correlation that CEO ownership weakens the likelihood of executives' turnover (Denis, Denis, and Sarin, 1997; Brunello et al., 2003). Since most CEOs in Vietnamese-listed enterprises are chairmen of boards, therefore it can be understood that they are holding shares of their enterprises. In this situation, it is expected that;

*Hypothesis 3c: CEO ownership has negative correlation to CEO turnover in Vietnamese enterprises.*

#### **4.3.2. The effect of other factors on the link CEO turnover-performance**

In fact, it is believed that CEO turnover is mainly dependent on firm performance. Nevertheless, the literature suggests that the link between CEO turnover and firm performance is influenced by other factors such as the structure of ownership, board composition, CEO ownership and political connection (state ownership). Therefore, additional hypotheses are developed in order to distinguish the effects of those factors on the link between firm performance and CEO turnover.

#### *4.3.2.1. The influence of State ownership*

According to Vuong and Tran (2010), SOEs in Vietnam are completely and directly controlled by the State. Hence, with regard to the vast number of SOEs in the Vietnamese economy, the effects of political connection on corporate governance practice and especially on CEO turnover have received more attention. Particularly, the political connection is presented via the amount of shares which are held by the State. As mentioned above, state ownership is assumed to have influences on CEO turnover. Last but not least, several studies have reported the effects of state ownership or political connection on the link between CEO turnover and firm performance. For example, Shen and Lin (2009) reported that state shareholding has a negative effect on CEO dismissal when profitability is below target, even though there is no effect of state shareholder on CEO dismissal when profitability is above target.

In fact, state shareholders are unlikely to be considered as real owners. They are seen as bureaucrats or agents who are responsible for operating the firms and acting on behalf of the government (Chang and Wong, 2009). Since those shareholders are considered as agents of the government, the decisions made by CEOs are believed to be influenced and controlled by the government. Particularly, these unique shareholders are attempting to use the resources of their firms to promote political and social objectives (Shleifer and Vishny, 1994; Bai et al., 2000; Chang and Wong, 2004; Bai et al., 2006). Therefore, this can lead to agency problem. The conflict of interests may occur following multiple personal interests of state shareholders, such as job security, the accumulation of personal wealth, and others (Shleifer and Vishny, 1997).

According to Chang and Wong (2009), state shareholders generally seem not to have a great incentive to maximise financial performance. For instance, Bai et al. (2000), Chang and Wong (2004), Bai et al. (2006) argued that firm profit is often lessened by state shareholders as the result of the pursuit of personal and/or political objectives. Besides, the political connection provides some excuse to CEOs for their poor performance (Lin et al., 1998). Consequently, those facts lead to an assessment that state shareholders who represent for state shareholding in firms may reduce the

probability of CEO dismissal. In other words, CEOs are less likely to be terminated in firms which have state shareholding.

By researching the effects of political connection on corporate governance, Cao et al. (2011) found that political connection can hurt corporate governance by aggravating CEOs entrenchment. Indeed, they document that a CEO's political connection lowers the likelihood of forced CEO turnover by about 20% on average in Chinese-listed firms. Meanwhile, the probability of forced CEO turnover in privately controlled firm is stronger. Political connection also significantly lowers the sensitivity between CEO turnover and firm performance, thereby weakening the disciplinary mechanism to replace poorly performing CEOs (You and Du, 2012). Based on those findings above, it is expected that state ownership has negative effects on the link between firm performance and CEO turnover.

*Hypothesis 4a: State ownership negatively correlates to the sensitivity of the link between firm performance and CEO turnover.*

#### **4.3.2.2. The impacts of non-state ownership**

In order to capture and evaluate the effects of ownership structure on CEO turnover and to distinguish the differences between non-state and state ownership in impacting the sensitivity of the probability of CEO dismissals to firm performance, it is necessary to consider shareholdings of institutions and individuals.

As mentioned, institutional ownership has a correlation with CEO turnover (Dahya, Lonie and Power, 1998; Parrino, Sias and Starks, 2003; Strivens, Espenlaub and Walker, 2008). The correlation confirmed the positive effects of institutional ownership on corporate governance. In fact, the literature on corporate governance has pointed out that institutional investors have common incentive to monitor either firm or managers (Shleifer and Vishny, 1986). Besides, managers have more pressure to improve firm performance when institutions are larger shareholders (McConnell and Servaes, 1990). Hence, it reveals that managers have more threat of dismissal for poor performance. Based on the discussion, CEOs are one of the managers in firms and therefore they are expected to have more responsibility for firm performance than other managers in firms.



Therefore, CEOs in firms with large institutional shareholding have a higher probability of replacement for poor performance than others. It is also able to be understood that institutions that normally put pressure on CEOs to improve good performance would terminate a poor performance CEO. It leads to a hypothesis as;

*Hypothesis 4b: The sensitivity of the link between firm performance and CEO turnover is strengthened by the presence of institutions as large shareholders in Vietnamese-listed enterprises.*

Although the influences of individual shareholding on CEO turnover are unclear, it is argued to have a correlation with CEO turnover when individual shareholders are large or outside shareholder. When individuals play a role as a large shareholder they are able to influence the decision on firing CEOs for poor performance. As a result they have voting rights and direct impact on corporate governance and firm performance. Especially, the power is increased when the largest shareholder is an individual. In this case, the likelihood of CEO turnover is increase when CEOs fail to fulfil the firm's requirements and cause poor performance. Therefore, it proposes a hypothesis that is;

*Hypothesis 4c: Large individual shareholding strengthens the sensitiveness between firm performance and CEO turnover in listed enterprises.*

#### **4.3.2.3. The effects of ownership concentration**

According to Kaplan and Minton (1994), on examining Japanese firms, they found that the existence of large shareholders increases the possibility of CEO and top management team's replacement when firm performance is poor. Furthermore, Conyon and He (2008) attempt to find out whether CEO turnover is more sensitive to firm performance in in firms with a major controlling shareholder. Consequently, the result confirms that the sensitivity of CEO turnover to poor performance is greater in firms that have a majority of shareholders. Additionally, Kato and Long (2006b), by using a data of 634 Chinese-listed firms during the period of 1998-2002, found that the linkage of CEO turnover with performance is strengthened in firms having a majority of shareholders. This reveals that CEO turnover is more sensitive to firm performance in

firms where the lower level of ownership concentration allocates. Hence, the hypothesis of interest is;

*Hypothesis 4d: The level of concentration in ownership strengthens the sensitivity of CEO turnover to firm performance.*

#### **4.3.2.4. The influence of board composition**

Along with the effects of board composition on CEO turnover, the correlation between board composition and the sensitivity of CEO turnover to firm performance has been considered. In fact, some studies report that there is no significant correlation between the percentage of outside directors and accounting performance (Hermalin and Weisbach, 1991; Klein, 1998; Bhagat and Black, 2000; Kaplan and Minton, 2012). However, an earlier study of Hermalin and Weisbach (1988) documented that the relationship of CEO turnover with firm performance is higher when the board of directors is dominated by outsiders. Meanwhile, refining the independence of board following a detailed definition, Hwang and Kim (2009) found that the relationship of CEO turnover with firm performance in firms whose boards are more independent is stronger. The similar finding was found in the study of Nguyen-Dang (2009). Besides, Bushman, Dai and Wang (2010) reported that an increase of the number of outsiders on the board has influence on strengthening the sensitivity of CEO dismissal to firm performance. Hence, it is expected that the greater percentage of outside directors, the CEO turnover-performance sensitivity is more negative.

*Hypothesis 4e: The percentage of outside directors will strengthen the sensitivity of CEO turnover to firm performance.*

#### **4.3.2.5. The impact of CEO ownership**

Indeed, equity ownership is a tool for CEOs to enhance their power. As discussed above, CEO ownership negatively correlates to CEO turnover. Furthermore, there are several studies focused on the effect of CEO ownership on the sensitivity of CEO turnover to firm performance. In accordance to Dahya, Lonie and Power (1998) who researched in the UK, found that non-routine CEO turnover is less common in firms

with larger managerial stakes than in firms where CEO ownership is less than 1%. Along with this finding, Denis, Denis and Sarin (1997) presented that CEO turnover is inversely correlated to performance of a firms where the CEOs own less than 1% of the firm's common stock. Additional finding shows that managerial shareholding reduces the rate of non-routine CEO turnover when it levels in excess of 10% of equity. Consistently, Dedman (2003) documented that the relation of CEO replacement with firm performance becomes insignificant at higher levels of managerial ownership. Besides, there are only 6% of cases in which the dismissed CEO held more than 10% of the firm's common stock.

Related to the discussion above, many studies have revealed the increased risk of managerial entrenchment when high levels of CEO ownership are found to result in undesirably strong security of tenure for CEOs (Morck, Shleifer, and Vishny, 1988; 1989). Besides, the higher the percentage of equity CEO owned, the lower the likelihood that managers will be dismissed. Hence, high levels of managerial ownership are also found to diminish the sensitivity between turnover and performance (Denis and Denis, 1994, 1995; Kang and Shivdasani, 1995). In detail, Denis, et al., (1997) find that CEO turnover is more sensitive to firm performance when an outside shareholder hold 5+% of a firm's shares, and is less sensitive to firm performance when directors hold a stake of 5+%. Thus, the decision to remove CEO seems to be difficult when CEO ownership increases. Thereby, this study developed the additional hypothesis;

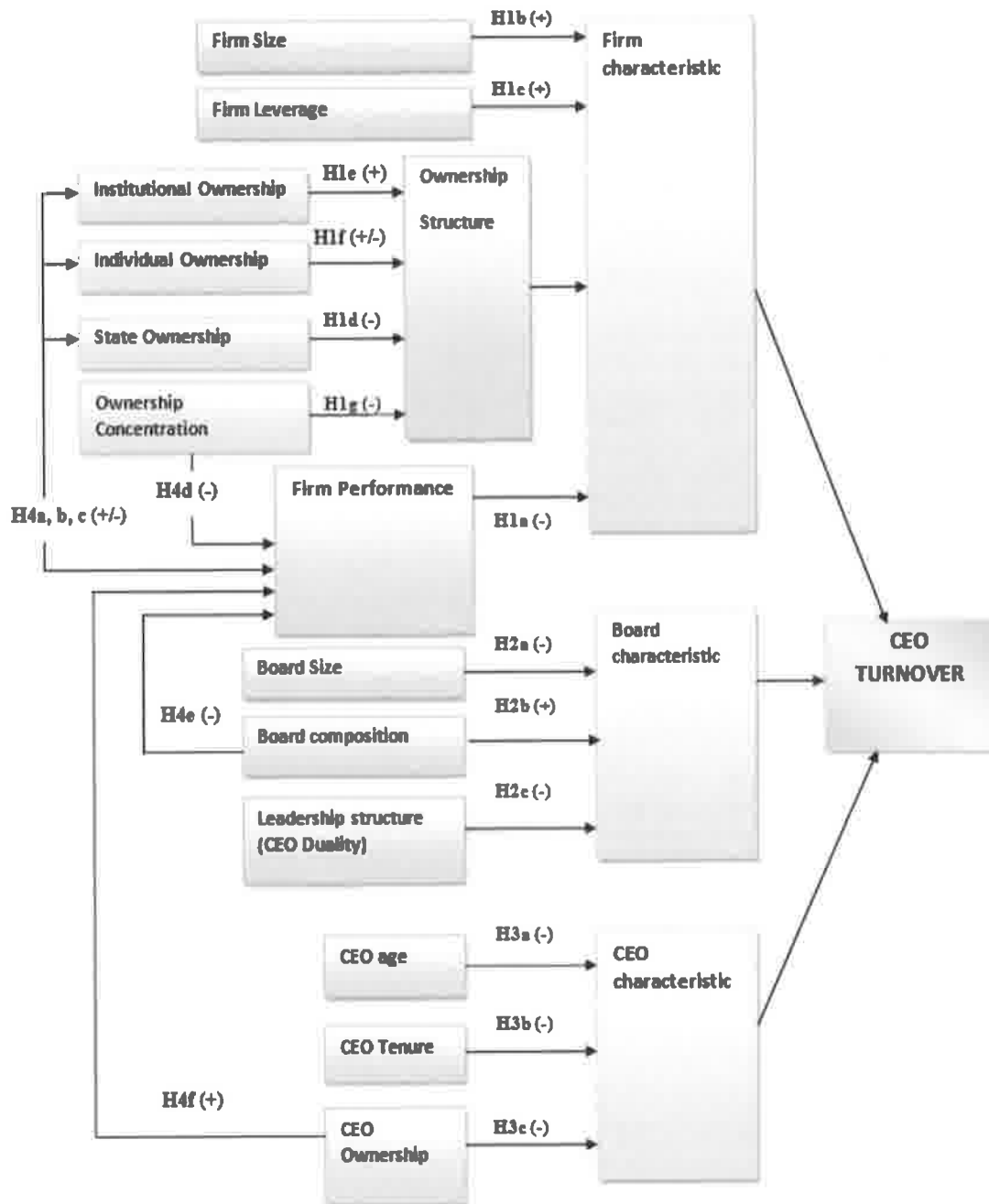
*Hypothesis 4f: CEO turnover-performance sensitivities are weaker for listed enterprises in which CEOs are holding common stock of these enterprises.*

#### **4.4. SUMMARY**

On the basis of the wide coverage of literature reviewed in the area of CEO turnover and the determinants of CEO turnover from both developed countries and transitional countries in the preceding chapter, the conceptual framework of this study is proposed. The conceptual framework includes major factors that have been evaluated and researched in prior studies. In brief, these factors are divided into three groups which are firm characteristics, board characteristics and CEO characteristics. Especially, the link between CEO turnover and firm performance is defined as the main linkage of the

framework. In fact, based on literature on CEO turnover, the framework has ignored insignificant or unclear factors such as CEO gender, CEO education, and industry characteristic.

Figure 4-2: Summary of Hypotheses



In accordance to the framework, the hypotheses have been developed. Particularly, the developed hypotheses are divided into main groups which are determinants of CEO turnover and the effects of other factors on the sensitivities of link firm performance-CEO turnover. In the first three groups, the hypotheses are built up based on the effects of firm performance, ownership structure, firm leverage, firm size, board composition, board size, leadership structure of board, CEO ownership, CEO age, and CEO tenure. Meanwhile, the fourth group of hypotheses include the hypotheses proposed by the impacts of ownership structure, board composition, and CEO ownership on the link between CEO turnover and firm performance. Particularly, the correlations of the hypotheses are presented in the Figure 4-2 above. In this figure, the relationships between factors are presented. Besides, it represents the hypotheses which are developed based on the correlation between the factors. In fact, it plays an important role in guiding the research to design and develop the methodology in the following chapter.

**CHAPTER FIVE: RESEARCH DESIGN AND METHODOLOGY**

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## 5.1. INTRODUCTION

Starting from defining the philosophical view of this study, this chapter introduces the research philosophy background which presents a cognisance of the philosophy of the researcher. Since research philosophy can influence research approaches and further impact on research methodology, it is necessary to provide an overview of the adapted philosophy of this study and a discussion of the ways in which this might influence the research and measures that have been taken to counter this. By comparing the differences among research philosophies, an appropriate research paradigm is defined. In particular, based on the large amount of existing literature on CEO turnover, the adapted research philosophy of this study is positivism. Moreover, this chapter presents an approach which is consistent with the research philosophy and can help the researcher conduct this study and fulfil the purpose of the research. Particularly, the research approach is a deductive approach.

Following the deductive approach, this study applies the experimental methodology which comprises the examination of the variables and the research framework in order to fulfil the aim of this study. In order to implement this methodology, the research models and variables of the models are defined and given the measures. Furthermore, the analysis procedure is represented in order to analyse the research models and to examine the defined variables in the models. By going deeper, not only does the chapter talk about the operationalization, measurement of the variables, and analytic procedure methods but it also discusses the data collection procedure and the sampling used in this research.

## 5.2. RESEARCH PHILOSOPHY

According to Saunders et al. (2007), a philosophical framework influences the understanding of researchers and perception of all social phenomenon and behaviour. The effects of the philosophical framework can be seen on research topics, designing and methodology. Besides, the selection of methodology, which arises from the researcher's own ontological and epistemological positions, affects the way in which the research is conducted and the expected output format. As a result, choices of methods and techniques are also dependent on epistemological assumptions (Hughes



and Sharrock, 1997). Furthermore, Saunders et al. (2007) suggested that research philosophy promotes consideration as to how knowledge should be developed in order to answer the research question. Additionally, Kvale (1996) pointed out that a review of research philosophy has an important role, as it helps researchers minimise methodological error. The understanding of research philosophy can benefit the research design by clarifying research designs, selecting appropriate research designs and identifying or even creating and adapting new designs (Easterby-Smith et al., 2002). Therefore, by presenting the background of research philosophy, this section is going to explain the rationale of choosing an appropriate approach and methodology for this study. Besides, the research philosophy of this study is going to be explained in further texts.

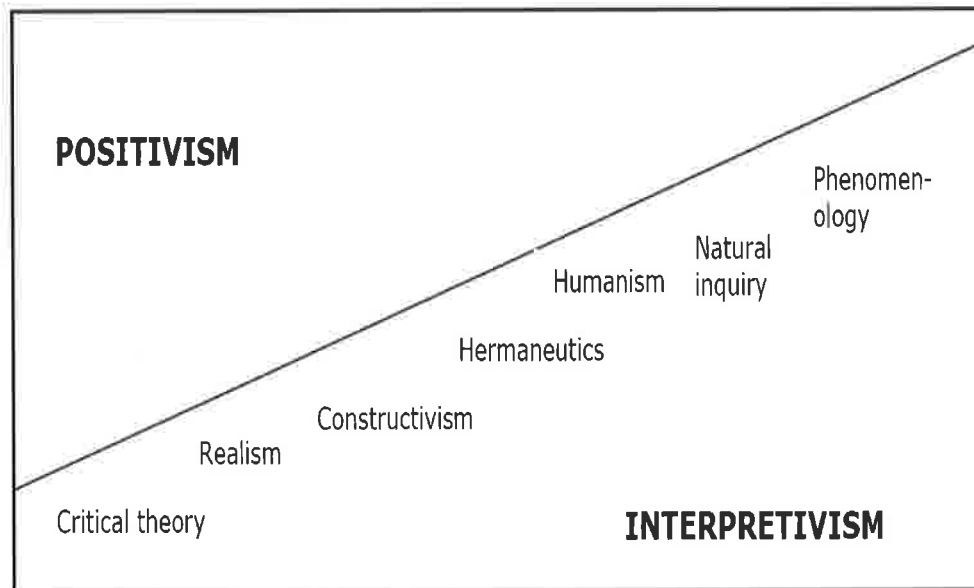
### **5.2.1. Research philosophy background**

In order to find out which research paradigm is appropriate to this study, it is necessary to take a review of research philosophy. Following Saunders et al. (2007) “onion” model, a clear framework for the most appropriate research methodology of this study can be addressed. As the first layer of the research ‘onion’, it includes positivism, realism, interpretivism, objectivism, subjectivism, pragmatism, functionalist, interpretive, radical humanist and radical structuralist. Indeed, those paradigms share some common features. For example, the functionalist paradigm is also labelled as the positivism paradigm by many researchers (Collis and Hussey, 2003; Fisher, 2004; Saunders et al., 2003). Together, functionalist would be labelled by positivism, whereas interpretive is varied by interpretivism (Burrell and Morgan, 1979).

However the most important role of the paradigms of research philosophies presented in the first layer of the “onion” model help to define the way researchers thinking about the development of knowledge (Saunders et al., 2003). For instance, Carson et al. (2001) suggested that the positivism paradigm starts from critical theory to phenomenology, whereas interpretivism begins from phenomenology to critical theory (Figure 5-1). In detail, the positivism paradigm presents the development of knowledge which is based on theories and builds up the structure to gain knowledge. On the other hand, interpretivism paradigm develops knowledge and theories from observation and

the examination of phenomena. By defining a paradigm of research philosophies, researchers are able to identify their research approach, research methodology, research data and the methods for examination of collected data.

**Figure 5-1: Continuum of research philosophies**



Source: Carson et al. (2001)

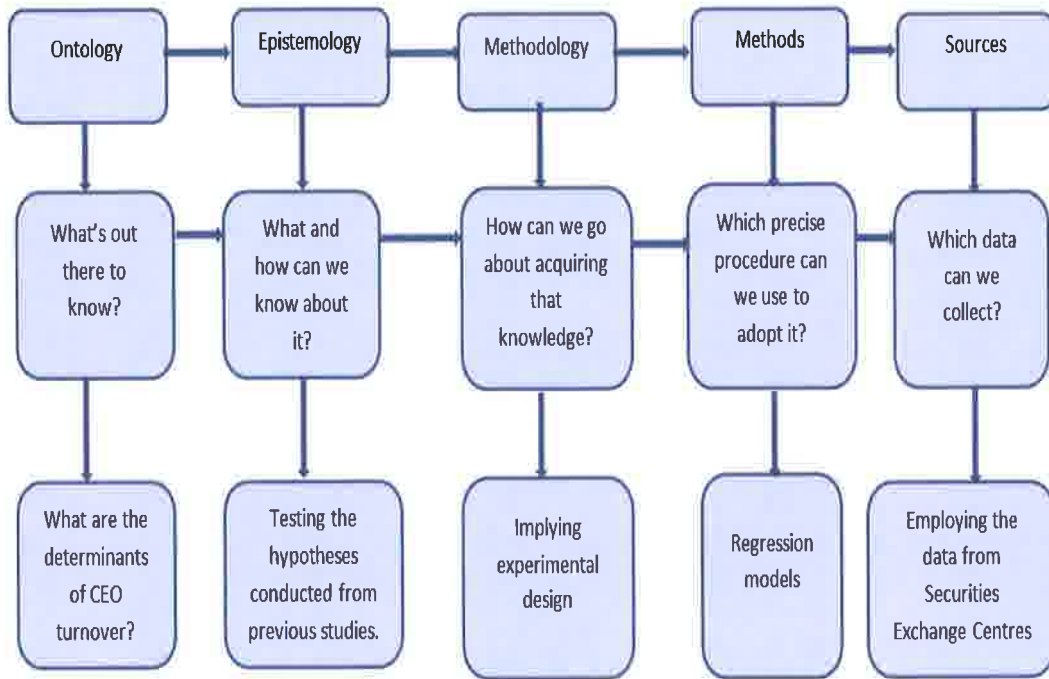
In according to Carson et al. (2001), the most common philosophical paradigm used in business research is a continuum between positivist (scientific) and interpretivist (relativist) philosophies. Besides, Hughes (1990) suggested that positivism and interpretivism are two contrasting research paradigms which are used for researching on business and management. As the two main paradigms of the social science study, the positivism and the interpretivism paradigms are contrasted in different ways. Robson (1993) argued that the positivistic approach is usually regarded as starting with theory. Positivistic researchers generalise what they are looking for from theory and previous research; they have specific hypotheses to test in order to confirm or reject their assumptions of the research subject. The interpretive approach, however, involves the collection of data before inducing theories and concepts. It is 'hypothesis generating' rather than 'hypothesis testing' (Robson, 1993).

### 5.2.2. The Paradigm Adopted in This Study

In accordance to Saunders et al. (2003), selecting an appropriate paradigm to implement depends on the research questions and the research assumptions. Particularly, the selected paradigm needs to fulfil the tasks which help to answer the research questions and test the assumptions. Following the discussion above, a positivism paradigm is adopted in order to study the determinants of CEO turnover, and the link between CEO turnover and firm performance. The reason for this can be explained by considering the properties of the paradigm. In terms of positivism, a research is designed and evaluated using the criteria of the natural science model of research which comprises research question, pre-defined hypotheses, controlled observations; controlled deductions and generalizability (Lee 1989; Yin 1994; Rowley 2002). Furthermore, interpretivism paradigm seems to be implemented when researchers study new research topics or where little literature exists (Ghuri and Gronhaug, 2005; Saunders et al., 2003). However, there is a large amount of literature readily available on CEO turnover. Moreover, a series of theories and prior study have already been developed which can be used to generate specific hypotheses. Also, the testing of these hypotheses helps to fill the gap between the literature and evidence in transition economies, especially in the Vietnam case. Hence, positivism paradigm is more appropriate than other paradigms.

In fact, under different paradigms, the elements are different. Figure 5-2, adopted from the study of Hay (2002), shows the logical and directional relationship between the key components of research. Therefore, the choice and understanding of research methods is more than a technical exercise but is concerned with understanding how the researcher views the world (Cohen et al, 2000). Understanding the paradigms plays a vital role on clarifying specific assumptions for this study. Besides, it helps to select appropriate approaches to examine these assumptions and answer the research questions. Realizing the important role of understanding the elements of the research paradigm, this section is going to present the elements of positivism paradigm adopted in this study.

**Figure 5-2: The interrelationship between the building blocks of research**



Source: Adopted from Hay (2002, p.64)

Practically, Perry et al. (1999) and Saunders et al (2007) suggest that researchers, in terms of research philosophy, need to concern the three elements of a paradigm which comprise ontology, epistemology and methodology. In detail, ontology is the “reality” that researchers investigate, and is the starting point of all researches. Following ontology, epistemology is the relationship between the researcher and reality, and shows the possible ways of gaining knowledge (Blaikie, 2000). Indeed, epistemology focuses on the process of knowledge gathering and is about developing new knowledge. Meanwhile, methodology is the technique used by the researcher to investigate that reality. It deals with how researchers gain knowledge about the world.

### 5.2.2.1. *Ontology*

According to Burrell and Morgan (1979), ontology considers assumptions about the nature of the phenomena under investigation. In the context of positivism paradigm, social scientists accept that the ‘reality’ to be investigated is external to the individual. It is not a product of individual consciousness or of one’s mind; it exists independently

and objectively in the world. In other words, reality is real and apprehensible and exists independently of the subjects being studied (Eriksson and Kovalainen, 2008). Particularly, CEO turnover is a reality which is composed under the effects of various factors such as firm performance, ownership structure, CEO ownership or others. These factors have different impacts on CEO turnover. For example, a CEO may be dismissed by leading the firm performance to poor result. Meanwhile, CEO ownership reflects a CEO's power and the CEO, therefore, can reduce the probability of dismissal from his/her position. On the other hand, the differences in ownership structure of the firm which are defined by prior studies affect the decision of CEO dismissal. All of these suggest that CEO turnover is objective and is affected by its determinants. Consequently, assumptions associated with ontology of the positivism paradigm are appropriate for this study.

#### **5.2.2.2. Epistemology**

In terms of epistemology, assumptions are about the essence of 'knowledge' which presents how researchers understand social reality (Burrell and Morgan, 1979) and what attitudes they hold to view what they are studying (Hussey and Hussey, 1997). Under the positivism paradigm, researchers obtain the knowledge of a phenomenon through a series of empirical tests based on a large data sample in order to answer 'true' or 'false' questions. Since this study attempts to examine a variety of hypotheses in order to discover the determinants of CEO turnover and the prior studies suggest examining the effects of CEO turnover's determinants with large data samples, it is appropriate to implement the epistemological nature under positivism paradigm. Furthermore, a series of hypotheses is developed in order to answer these typical 'true' or 'false' questions. It is believed that this study is going to be objective and is finding the truth by answering the research questions. Therefore, an empirical study which follows the approach applied by a large sample statistical analysis rather than small sample experiments is regarded as appropriate in this study.

#### **5.2.2.3. Methodology**

Within the context of a positivism paradigm, a methodology for the natural science to explore associations or causality is generally adopted. This is usually achieved by

launching statistical models and involving a large amount of data. In this study, under the positivism paradigm, it is appropriate to conduct a series of statistical techniques to explain and predict determinants of CEO turnover and their effects on CEO turnover in Vietnamese-listed enterprises. This is conducted by analysing the accuracy of CEO turnover's probabilities in Vietnamese-listed enterprises. The purpose of this methodology is to describe associations and to explain the effects of the determinants of CEO turnover. Hence, applying research methodologies in positivist views is appropriate. Besides, positivism methodologies are influenced by the logic of experimental designs derived from natural science. Therefore, the use of statistical analysis and measures of association and the development of measurement models are significant in this approach.

### **5.3. RESEARCH APPROACH**

According to Ghauri and Gronhaug (2005), the research approach belongs to the social level of the research paradigm, which comprises the use, construction and verification of theories. Since it is important to identify the research approach of this study, the section describes a rational explanation for the choice of research approach. Also, it presents the selected research approach in further texts.

#### **5.3.1. A rational explanation for choice of research approach**

In general, inductive and deductive approaches are the two approaches which are commonly adopted in social research. Among the two approaches, inductive approach is frequently used by researchers who attempt to build a theory based on the data collected. In other words, the researchers try to explain a social reality from personal observations and subjective views. Regarding Saunders et al., (2003), induction emphasises the insight into how individuals interpret their social world and the meaning they attach to events. Therefore, an inductive approach will be particularly considered with the context in which certain events are taking place and may therefore discover different cause-effect links. Following inductive approach, qualitative methods and small samples are commonly used. In addition, the research process starts with data, goes from observations to findings and ends up at theory building. Hence, the theory generating process is composed by using personal views and subjective judgements of

researchers (Bryman and Bell, 2003; Ghauri and Gronhaug, 2005) Furthermore, the inductive approach is likely to be associated with interpretivism paradigm rather than positivism paradigm (Saunders et al., 2003).

In comparison, deductive approach is implemented by researchers who start their research from a generalised theory and clear research questions (Burrell and Morgan, 1979; Ghauri and Gronhaug, 2005). It is argued that the deductive approach is appropriate when a large body of well- established literature on the research topic is available. Researchers adopting the deductive approach seek research opportunities or gaps by carefully examining existing knowledge in the literature. In this case, it is presented that there is a large amount of literature readily available on CEO turnover, and many theories have already been developed. Therefore, a type of 'true' or 'false' questions is often deduced from the exploration of research questions and related theories (Creswell, 1994; Ghauri and Gronhaug, 2005). Besides, in terms of deductive approach, Robson (1993) suggested researchers would involve a progression through five stages which comprise deducing a hypothesis, expressing the hypothesis, suggesting a relationship between two specific variables, testing the operational hypothesis and subsequent examination of the outcome. Additionally, researchers can modify the hypothesis based on the outcomes in case it is necessary. Therefore, this approach helps researchers to explain the causal relationships between the variables as well as to develop the hypothesis. Moreover, this approach is commonly associated with quantitative data along with a highly-structured methodology in order to allow testing the hypothesis. Consequently, the research approach of this study is a deductive rather than an inductive approach.

### **5.3.2. Deductive approach**

Following the adopted research paradigm and research approach, this section expresses the research design framework of this study. By deductive research approach, theories and hypotheses are firstly generated from the existing knowledge which could be adopted from the literature and prior studies (Ghauri and Gronhaug, 2005). Based on the literature and theories, hypotheses are supposed to identify the relationship between two or more events or concepts. The concepts adopted in this deductive research should be

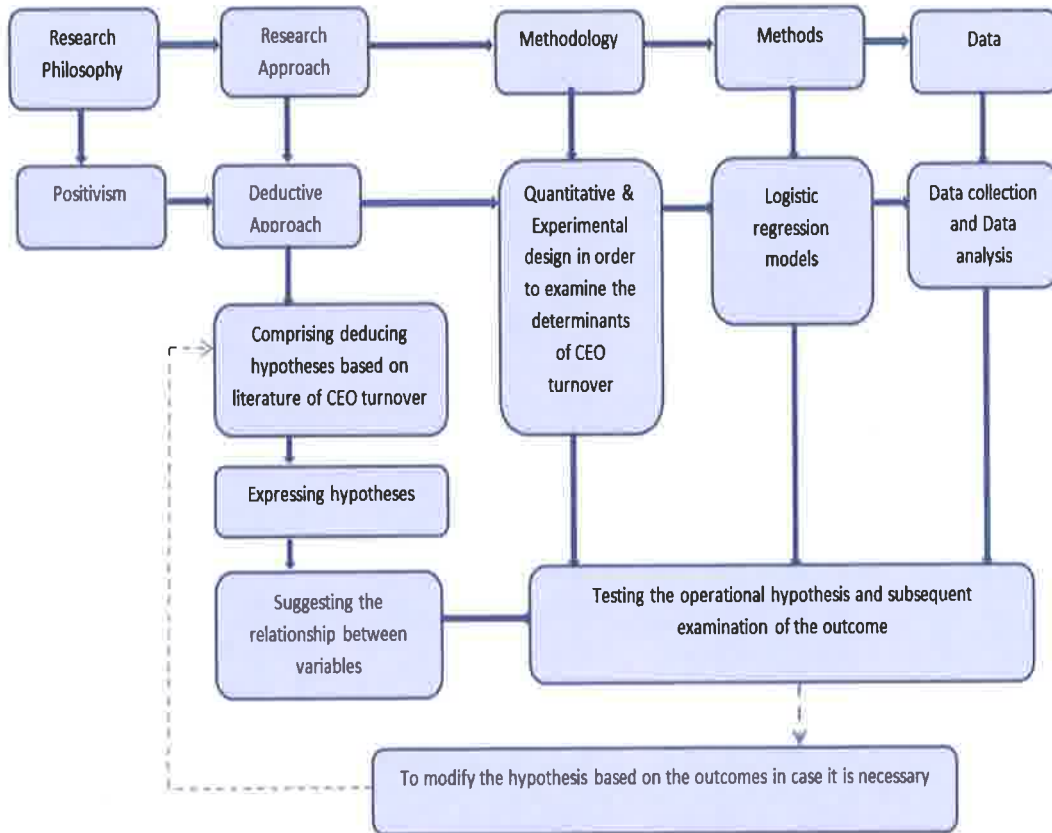
highly relevant to the research topic under study (Robson, 1993). Following this stage, the process of testing those hypotheses is developed in order to gain the results of the tests which may accept or reject those hypotheses. In detail, the process is on account of explaining or predicting social phenomena so as to provide new evidence for the theory (Hussey and Hussey, 1997; Saunders et al., 2003). In order to test hypotheses, the important step is expressing hypotheses, which is called 'operationalization' (Robson 1993). The purpose of this step is to help researchers to define how the variables are to be measured and to describe the relationship between two specific variables. Then, the operational hypotheses are tested by experiments or other types of empirical inquiries in order to reveal the result of testing hypotheses. However, it is suggested that the theory proved from the empirical analysis is only based upon the validity of a limited sample and therefore those hypotheses could be modified if it is necessary.

In this study, CEO turnover has been explored in a large amount of studies. Although the literature in transition economies is conducted by a small number of studies, the determinants of CEO turnover are researched. Hence, the hypotheses of this study are developed based upon the previous studies. Moreover, this study attempts to examine and explain determinants of CEO turnover and their effects by using the evidence from Vietnamese-listed enterprises. Also, the link between CEO turnover and firm performance is evaluated in this study. Indeed, it is trying to explain relationships between variables such as, firm performance, ownership structure, board composition, CEO ownership, state ownership and CEO turnover. Following, an operationalization process is undertaken to transfer concepts into measurable variables in a quantitative way. In fact, most determinants of CEO turnover are able to be directly used in the statistical models. However, an appropriate method is needed to ensure the efficiency of measure. Based on the deductive approach, it requires sufficient numerical data and assumes that researchers are independent from what is being observed. In this study, a large dataset from Vietnamese stock markets is gathered. Based on the data, a highly structured methodology which is comprised by statistical methods to control and test hypotheses is able to facilitate replication and generalisation of the study. In addition, the data implemented to conduct standard empirical tests are collected independently by the researcher. Notably, in case the results of these tests are not consistent with the



hypotheses, the hypotheses may be modified. Consequently, it can be present clearly by the research design framework in Figure 5-3 below.

Figure 5-3: The research design framework



In fact, the research design framework is adapted following the five stages of Robson (1993). By combining with the research philosophy and research approach, the framework provides a clear guide to follow each stage in order to fulfil the aim of this study.

#### 5.4. RESEARCH MODEL

Following the research approach, the quantitative methodology is defined as appropriate methodology. Furthermore, to examine the determinants of CEO turnover, an experimental design is necessary. Since it is important to define research models in order to test the hypotheses, this section is to express the rational explanation of the

choice of research model, and to present the adopted research model which is applied and developed to examine the determinants of CEO turnover in this study.

#### **5.4.1. Choosing appropriate research models**

In pursuing the objectives of this study, the tasks are to measure turnover rates of CEO, and to identify the determinants of CEO turnover in Vietnamese-listed enterprises. Firstly, to measure turnover rates of CEO, this study is going to collect all the changes in CEO position which occurred during the research period. For each enterprise, the researcher is going to examine the names of CEOs, their tenure including the beginning and ending date, and note any CEO replacement over the years. However, this study unfortunately cannot distinguish the differences of CEO turnover between those which are forced turnover or voluntary turnover. Since Denis and Denis (1995), Warner, Watts, and Wruck (1988), and Weisbach (1988) suggested that firms often do not specifically state that a CEO has been fired or ousted even when this is the case the CEO was dismissed. Furthermore, the prior studies in transition countries suggested that distinguishing between forced and voluntary turnovers based on public information is hard because the press is unlikely to explicitly mention whether the CEO turnover was forced or not (Cao et al., 2010). The reason might be that in order to “save-face” for fired CEOs by being allowed to have their contract expire or change job or resign. With regard to Freeman and Nguyen (2006), public information has unclear parts from listed enterprises, and therefore, it seems to be difficult to classify types of CEO turnover in the case of Vietnam. Besides, it is difficult to observe a large proportion of listed enterprises which are SOEs. Since the condition of SOEs in China is similar to Vietnamese SOEs (Vu, 2009), following the study of Chi and Wang (2009) on CEO turnover in China, involuntary turnover may be more difficult to observe in SOEs than in other enterprises. Consequently, this study ignores the type of CEO turnover in Vietnamese-listed enterprises.

In order to examine the determinants of CEO turnover, research models need to be estimated. Practically, there are a large number of prior studies which suggest using logistic regression models in order to examine the determinants of CEO turnover (Coughlan and Schmidt; 1985; Kang and Shivdasani, 1995; DeFond and Park, 1999;

Goyal and Park, 2002; Dahya et al., 2002; Gibson, 2003). Regarding the studies undertaken in transition countries and similar to Vietnam, previous studies of CEO turnover in China are good samples. Indeed, the studies also suggest to employ logistic regression models which are seen as appropriate models to examine the determinants of CEO turnover (Firth et al., 2006; Kato and Long, 2006a; Cheng et al, 2008; Chang and Wong, 2009; Shen and Lin; 2009). In fact, a logistic regression model is usually developed and implemented for the general cases in which there are more than two possible values for the response variable (Agresti, 1996). Besides, Hosmer and Lemeshow (1989) suggest data analysis should apply logistic regression when the explanatory variables are categorical variables. In this study, CEO turnover is dependent variable and it is traced whether firms experienced changes in CEO position during the observation period. Therefore, the variable is able to define as a simple category which is having changes or no changes in CEO position. In this case, Maddala (1991) states that logistic regression analysis is the appropriate procedure. Consequently, logistic regression is implemented in this study in order to examine the determinants of CEO turnover in Vietnamese-listed enterprises.

#### 5.4.2. Implementation of Logistic regression

As discussed above, logistic regression has been chosen in order to examine the determinants of CEO turnover. Thereby, this section is going to implement and develop particular logistic models for the research. Especially, it is consistent with the prior studies such as, Firth et al. (2006), Kato and Long (2006a), Shen and Lin (2009), and Chang and Wong (2009). In the logistic models of this study, the probability function of CEO turnover can be expressed as:

$$\Pr(\text{turnover} | x) = f(x) \quad (1)$$

In the model (1), a collection of both independent variables and control variables is denoted by a vector  $x$  ( $x_1, x_2, x_3, \dots, x_n$ ). Besides, according to Hosmer and Lemeshow (1989), logistic regressions are more consistent with odds than proportions. Particularly, the ratio of the proportions for the two possible outcomes is the odds. When the proportion for one outcome is defined as  $p$ , the proportion for the second ones is  $1 - p$ . Hence, implied to this study,  $p$  reflects the proportion of CEO turnover occurred during

the observation period, whereas  $1-p$  is the proportion of non-CEO turnover observed. Therefore, the odds of CEO turnover in this study can be measured as;

$$\text{Odds} = \frac{\text{Pr}(\text{turnover})}{1 - \text{Pr}(\text{turnover})}$$

Simplifying notation, it is used  $\pi(x) = \text{Pr}(\text{turnover})$  to represent the conditional mean of turnover given  $x$ . The, it can represent the logistic regression model as;

$$\pi(x) = \frac{e^{f(x)}}{1 + e^{f(x)}} \quad (2)$$

Using log odds for the transformation, the model for logistic regression is expressed as below;

$$\text{Logit} [\text{Pr}(\text{turnover} = 1 | x)] = \log\left(\frac{\pi(x)}{1 - \pi(x)}\right) = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \dots + \beta_n x_n \quad (3)$$

Regarding the conditional distribution of the outcome variable, Hosmer and Lemeshow (1989) suggested considering the error which is a deviation of observations from the conditional mean. Since the outcome variable of this study is a dichotomous variable, the observation's deviation  $\varepsilon$  is added to the model (2). Consequently, the model (3) can be expressed as;

$$\text{Turnover}_i = \beta_0 + \beta_1 x_{1i} + \beta_2 x_{2i} + \beta_3 x_{3i} + \dots + \beta_n x_{ni} + \varepsilon \quad (4)$$

In the model (4),  $x_1, x_2, x_3, \dots, x_n$  reflect for independent and control variables which are going to be defined in further section. Meanwhile,  $\beta_0, \beta_1, \beta_2, \beta_3, \dots, \beta_n$  are the coefficients on the independent and control variables to be estimated, and  $\varepsilon$  is the disturbance term. Additionally, the  $i^{\text{th}}$  of observation is presented by  $i$ , with  $i = 1, \dots, N$ .

## 5.5. VARIABLE DEFINITION AND MEASUREMENT

In order to implement and examine the research models, definition and measurements of variables are necessary. Hence, the section attempts to present the definition and

measures of each variable which are included in the research models. In order to reveal the appropriateness of the chosen method and rational reason of choosing, the definition and measures of variables are also described in accordance with the previous related studies.

### 5.5.1. Dependent variable

CEO turnover is the primary dependent variable in the research models. As discussed above in Section 5.4.1, it is necessary to consider the construction of the dependent variable. However, this study unfortunately cannot distinguish between involuntary replacement (arising from termination, forced dismissal etc.) and voluntary replacement (arising from retirements, resignations, job-moves etc.). Even though some studies have attempted to distinguish the two kinds of CEO turnover, the methodologies are conservative. Besides, the results pointed out that the number of forced CEO turnover is small. For instance, Chang and Wong's (2004), who examined CEO turnover in Chinese firm during the period 1995-2000, reported that there was only about 4% of CEO turnovers were dismissals, and there was over 50% of CEO turnovers were changes of job and contract expiration. Firth et al (2006) also identified a small percentage of the cases as forced replacement. Meanwhile, Kato and Long (2006a) ignored the difference between voluntary and involuntary CEO turnover. With regard to Vietnamese enterprises, Freeman and Nguyen (2006) suggested that the disclosure of information by listed firms in Vietnam to public is slow and incomplete.

Based on those points, this study excludes the distinction between voluntary and involuntary CEO turnover. Thus, CEO turnover is measured by changes in CEO positions in Vietnamese-listed enterprises. Consequently, defining general directors as CEOs in Vietnamese-listed enterprises, the dependent variable (TURNOVER) is a dummy variable equal to one if there is a replacement in the general director (CEO) position during the fiscal year and zero otherwise. It is suitable to implement the logistic regression models in order to measure the determinants of CEO turnover.

### 5.5.2. Independent variables

In pursuit of the aim of this study, defining and measuring independent variables is important. Those steps help to examine the determinants of CEO turnover. Therefore, this section attempts to express how independent variables in this study are defined and measured.

#### 5.5.2.1. Firm performance

As discussed above, firm performance is a key determinant of CEO turnover. Since firm performance could be presented and measured by financial performance, accounting performance, stock performance or others measurements, measurement of firm performance has a vital role in the research. Indeed, the previous studies had used various measurements of firm performance in researching the effects of firm performance on CEO turnover. Besides, it is suggested that there is no single general measure of firm performance in studying CEO replacement (Lausten, 2002).

In a notable study of Denis and Denis (1995), it was suggested that CEO turnover was basically the result of significantly poor operating performance. Meanwhile, accounting performance includes expenses divided by sales, inventory loss, defects, sales return and total operating expenses divided by sales (Wright et al., 2005). However, financial measures seem to be the common measurement of firm performance. Most empirical examinations of the impact of firm performance on CEO turnover have traditionally used various financial measures: Tobin's Q or its proxy (Yermack, 1996), return on assets, profitability, capital employed, and percentage of sales resulting from new products (Selvarajan et al., 2007; Hsu et al., 2007), sales revenue, return on equity, stock returns (Bhagat et al., 1999), earnings per share, return on investment and net income after tax (Grossman, 2000). Indeed, the measures implemented in the prior studies are able to be classified into two groups which are market based measures and accounting based measures. According to Kapopoulos and Lazaretou (2007), the implementation of the measures is different following authors. For instance, Tobin's Q, which is one of market based measures, is based on the perception of investors. Hence, it is influenced by the psychology of investors and the predictions of future events such as manipulation, herd behaviour etc. On the other hand, measures following accounting-

based are considered to reflect a backward looking and accounting standards in a country (Kapopoulos and Lazaretou, 2007).

With regard to those measures above, it leads to choose a measure which would reliably capture firm performance's essential aspects. However, this task has become more important in transition economies regarding the characteristics of these economies. For instance, underdeveloped stock market and poor accounting standards lead the implementation of performance measures based on assets, capital stock or equity to be less emphasis (Bevan et al., 2001; Muravyev et al., 2009). On the other hand, Yermack (1996) suggested that the implementation of Tobin's Q, which is considered as a traditional measure, is to represent expected performance of firm in long-term run. However, the implementation of Tobin's Q seems to be virtually ruled out, since there is an absence or very limited role of the stock market in transition countries. Besides, the reliability of the capital stock data is reduced by several problems related to the characteristics of transition countries (Muravyev et al., 2009). Regarding this limitation in transition countries, accounting measures seem more appropriate. Moreover, Kaplan (1994a, b) pointed out that accounting measure have been used more frequently in the literature on CEO turnover.

In order to overcome the absence and limitation of the role of the stock market in transition countries, the share of exports in sales is suggested by Bevan et al. (2001) as a useful measure of firm performance. Meanwhile, Gibson (2003) advised using accounting-based measures such as earnings before taxes and interest scaled by assets, growth in sales, and the change in earnings scaled by lagged assets. In another study, Earle (1998) and Kouznetsov and Muravyev (2001) stated that labour productivity might be the most suitable performance measure. Nevertheless, this measure is only suitable for analysis in short-term, since it is based on the assumption that there is no change in the level of capital (Muravyev et al., 2009). Hence, in studying CEO turnover in the Ukraine Muravyev et al. (2009) used a variety of proxies to measure performance such as return on assets, return on sales, and labour productivity. Similarly, the measures based on accounting ratios are commonly implemented in the previous studies in China on CEO turnover (Firth et al. 2006; Kato and Long, 2006a,b; Chi and Wang,

2009; Liao et al., 2009; Wang, 2010) in compared to a few studies which consider market-based measures such as Firth et al. (2006) and Kato and Long (2006a,b).

According to previous research, firm performance (PERFORMANCE) therefore is measured by using three often used accounting measures, which are return on asset (ROA), profit margin (MARGIN), and earning per share (EPS). According to Kato and Long (2006a), firm performance in the literature of CEO replacement can be measured by either current or previous period. Besides, it is suggested that the implementation of current or pervious period to measure firm performance depends on the occurring time and decision of replacement. In Vietnamese firms, CEO replacements might occur in the first quarter of the fiscal year, even though the decision of CEO dismissal could be made at the end of the previous year. Moreover, Vietnamese-listed firms in which the shareholder meeting is normally held at the beginning of the fiscal year and therefore in when the official decision of replacement may be announced. Along with those situations, firms which experience CEO turnover in the second half of this fiscal year could be accounting for the power and frequency of BOM's meetings. In this type of firms, the decisions of CEO dismissal are more likely to be made if CEOs are responsible for poor performance. Based on the facts in Vietnamese firms, firm performance in this study is designed to be a measure based on the current period by three proxies which are EPS, ROA and MARGIN. The strategy is consistent with the measures undertaken in studies of Huson et al. (2001), Firth et al. (2006), Chang and Wong (2009), Liao et al. (2009), and You and Du (2012).

Furthermore, Kato and Long (2006a) advised to adjust firm performance in order to across differences between firms in different industries. It is believed that firm performance is more accurate by implementing industry adjustment. It is also able to mitigate econometric problems and to minimize the effect outside of a CEO's responsibility (Firth et al., 2006). Following this advice, the study will, therefore, apply industry adjustment to the three proxies of firm performance. The adjusted values are calculated as below;

$$ADJEPS = \text{sign}(EPS - IDM_e) * \sqrt{|(EPS - IDM_e)|}$$

$$ADJROA = \text{sign}(ROA - IDM_r) * \sqrt{|(ROA - IDM_r)|}$$



$$\text{ADMARGIN} = \text{sign}(\text{MARGIN} - \text{IDM}_m) * \sqrt{|\text{MARGIN} - \text{IDM}_m|}$$

In those equations above,  $\text{IDM}_r$ ,  $\text{IDM}_m$  and  $\text{IDM}_e$  are the median values of industries for ROA, MARGIN and EPS. Additionally, the median values of each industry are calculated based on the data of observed firms in same industry. The reason for using median values instead of mean values is suggested by Kang and Shivdasani (1995), Murphy (1999), Firth et al. (2006), and Kato and Long (2006a), You and Du (2012). As a result, mean value might be affected by normal distribution of the data which leads the data description to be distorted. Therefore, implementation of median value helps to provide relative values for analysis of the research. Consequently, the industry-adjusted values which are ADJEPS, ADJROA, and ADMARGIN are used instead of the three proxies EPS, ROA, and MARGIN in this study.

Along with those proxies above, three other proxies which are computed based on the three accounting performance proxies (EPS, ROA and MARGIN) are the average values of EPS, ROA and MARGIN. Particularly, the average values are AEPS, AROA, and AMARGIN, which are calculated by the mean of the current and period year after implementing industry adjustment. Indeed, the group of proxies are designed to examine CEO turnover when a CEO is responsible for both current and previous years. It is also able to explain the replacement which occurs in the first half of a fiscal year.

#### 5.5.2.2. *Ownership Variables*

The section is designated to identify and present how to measure the relation of ownership structure to CEO turnover in Vietnamese enterprises. It is to ensure that the effects of variables under ownership structure concept are addressed and are measureable. As mentioned in Chapter Two and Chapter Four, ownership types and ownership concentration are considered to distinguish the influences of ownership structure on CEO turnover. In fact, there are a variety of studies which have paid attention to the role of ownership structure related to its effects either on CEO turnover or firm performance. Also, those studies have provided various measures of ownership structure in researching its effects on CEO turnover. Particularly, they suggested a variety of ways to classify the types of ownership and measure the level of concentration in ownership. However, it is necessary to consider the voting rights of

shareholders before looking at classifications of ownership types and measurement methods of ownership concentration.

In fact, it is hard to gather the proportion of small shareholders in listed companies. Besides, it is necessary to realise the role of large shareholders who have rights to vote in listed enterprises. Indeed, there is the difference between shareholding and voting rights. Particularly, the size of shareholdings is not only considered as a proxy for the owner's motivation but it also indicates the power and impact of owners. Besides, the fact shows that in corporate governance, there are certain shareholder groups which might hold voting rights that are disproportionate to their stakes. Hence, data on voting rights must be considered. Especially, ownership data needs to distinguish the voting rights and not the mere level of shareholdings and therefore the ownership concentration needs to be measured. Regarding the voting rights, Reneboog (2000) and Holderness (2003) suggested that the shareholders who owned more than 5% of company's shares are considered as block-holders. Furthermore, corporate governance disclosure rules, including the ones imposed on companies by the Securities Law 2006, usually stipulate that those shareholdings that exceed the 5% threshold be disclosed. The data of those shareholders is easier to collect and is helpful to measure the effects of ownership structure in Vietnamese-listed enterprises. Hence, the shareholders or shareholding percentages to be used in this study are based on the information of shareholders who owned at least 5% threshold of company's share.

Considering the methods of classification of ownership types, Reneboog (2000) suggested classifying ownership into eight classes which are holding companies, banks, investment companies, insurance companies, commercial and industrial companies, families and individual investors, regional or federal authorities, and realty investment companies. Similarly, Franks, Mayer and Renneboog (2001) classified shareholders into the following 7 categories: company, institutional investor, founder or family member, government, board member, individual, and CEO (but not founder or founding family member). Meanwhile, an early study on ownership in China by Sun and Tong (2003) classified the ownership structure of the Chinese-listed firms into three primary groups: state shares, legal entity shares and public shares. These categories are based on the common fact in China that the majority of listed companies are SOE. In particular, the

state is commonly holding about 1/3 of the total shares in order to enable influences of the government over the listed firms, while, legal entity shares represent about 1/4 of the total shares. On the other hand, public shares are tradable on the stock market and represent about 1/3 of the total shares. Later, Firth et al. (2006) who have studied CEO turnover in China have applied three variables to measure ownership which are government, legal entity share ownership and foreign shareholders. However, those variables fail to distinguish large shareholders who are individuals in listed companies. Along with those studies, Chen et al. (2006) defined ownership classes including government, legal entities, individual and foreign. As time goes, the kinds of ownership in China are diversified. Thus, a later study of Shen and Lin (2009) suggested a category of ownership variable includes the total percentage of shares owned by different kinds of owners, the percentage of shares owned by the largest owner and the largest owner of a company. Together, Chi and Wang (2009) used two groups of owners which are state and non-state groups. In detail, the state group includes direct ownership by the Chinese Ministry of Finance and State-owned Assets Supervision and Administration Commission (SASAC), ownership of state corporations and public institutes, whereas the non-state group includes private companies, family or individual, and foreign shareholders.

In Vietnam, there are similar classes of owner with the classes in China. Particularly, the largest shareholders in listed enterprises are state ownership including direct investment of the Ministry of Finance and state corporations. Also, there are individuals or family acting as large shareholders in privately controlled listed enterprises. Further, large shareholders may be private companies such as limited liability companies or multiple member limited liability companies. Meanwhile, there are a small proportion of foreign investors in Vietnamese-listed enterprises. One of the objectives in this study is to examine the impact of non-state institutions and individuals on CEO turnover. Thus, the classification of ownership types is to distinguish these ownership types. In fact, there are three major types of shareholding exist in the Vietnamese stock market. The largest shareholding type is the state shareholding which includes ownerships belonging to the local and central governments, and SOEs. Besides, the legal entities which are normally controlled by the government are considered as the second shareholding type. The third shareholding type is non-state shareholdings which include

individual investors and private institutions. Therefore, this paper uses the category of ownership including three kinds of ownership which are state, non-state institutions and individual.

As mentioned above, it is difficult to gather the information of shareholders who own firm shares under 5%. Besides, the information of the proportion of institutional or individual shareholding is not reported in all firms' annual reports. Therefore, the ownership variables are designed as dummy variables. In detail, state ownership (STATE) equals one if there is at least one state shareholder holding 20% threshold of firm shares, and equals zero otherwise. In addition, the proportions of state shareholding include both direct and indirect investment of Vietnamese Governments, investment of the Ministry of Finance, state corporations and other state institutes. Meanwhile, non-state institutional ownership (INST) is a dummy variable equal to one if there is a non-state institution or private company which owns 20% threshold of firm shares and equals zero otherwise. Similarly, individual shareholding variable is zero if there is no individual holding 20% threshold of firm shares and is equal to one otherwise. The reason for choosing 20% threshold as the cutting point to measure influences of ownership types is that it follows the suggestion of corporate control literature. For instance, Cornett et al. (2009) and Dinç (2005) pointed out that a shareholder holding 20% threshold is considered to have sufficient influences on firm performance as well as the corporate governance system of a firm. Hence, the cutting point is able to define the effects of ownership types on CEO turnover.

Regarding ownership concentration, the prior studies provide two different measures which are implementation of dummy variables and Hirschman-Herfindahl Index (HHI). For example, Chi and Wang (2009) set up four types of listed enterprises in order to measure the effects of both ownership types and ownership concentration. In detail, they defined state and non-state listed enterprises and divided each type following the shareholding percentage. The used cutting point is 25% threshold of shares and therefore enterprises which have a shareholder owning at least 25% threshold of shares are considered as having a high level of concentration in ownership. Comparing to the study of Chi and Wang (2009), Kato and Long (2006b) also employed a dummy variable to present ownership concentration. However, they identify that enterprises

which have a shareholder owning over 50% threshold of shares have a high level of concentration in ownership. Differing from those studies, other studies which considered the effects of ownership concentration applied HHI index such as, Reneboog (2000), Chen et al. (2006) and Ding et al. (2009). The difference among the studies which applied HHI index is the number of shareholders which were used to calculate. In particular, Reneboog (2000) calculated the HHI index based on the 3 largest shareholders according to the category of owner. Meanwhile, Chen et al. (2006) and Ding et al. (2009) use HHI to evaluate the concentration of shares held by the top 10 stockholders, excluding the controlling one. In comparing between the two methods, it seems to reveal that the HHI index is able to capture and present the level of ownership concentration more clearly than implementation of dummy variables. Hence, this study decided to employ the HHI index to measure ownership concentration in Vietnamese enterprise.

Based on the discussion above, a variable (CONC) is designated to measure ownership concentration in Vietnamese-listed enterprises. As Le-Minh and Walker (2008) suggested, in Vietnamese-listed enterprises the number of shareholders holding more than 5% of a company's shares is around 5. Thus, this study is going to use the five largest shareholders in Vietnamese-listed enterprises to calculate the HHI index. Consequently, the measure of concentration implemented in this study is the HHI, which is defined as follows:

$$HHI = \sum_{i=1}^n S_i^2$$

where  $S_i$  is the shareholding proportion of a blockholder  $i$  in a given firm, and  $n$  is the top 5 shareholders having more than 5% of votes. In general terms, a value of HHI ranges from 0 to 10,000 and reflects the level of ownership concentration. Particularly, the higher value of HHI represents the higher level of ownership concentration is.

#### **5.5.2.3. Board composition**

The previous studies on the relation of board composition with CEO turnover, focused on the effects of board independence on CEO turnover. In other words, it can be

understood that outside directors who are concerned as independent directors on a board increase the likelihood of CEO turnover (Hermalin and Weisbach, 1988; Beasley, 1996; Brunello, Graziano, and Parigi, 2003; Hwang and Kim, 2009; Fahlenbrach et al., 2010; Ertugrul and Krishnan, 2011). These studies which pointed out the effects of outside directors on CEO turnover, have researched on developed countries. Meanwhile, there are a limited number of studies, which focused on the effects of board independence on CEO turnover, were undertaken in transition economies. However, Kato and Long (2006a) presented a statement that the percentage of independent directors has positive correlation to CEO turnover. Therefore, in terms of board composition, this paper focuses on defining and measuring the percentage of independent directors on the board of Vietnamese-listed enterprises. It is clearly to define that the percentage of independent directors (OUTSIDER) can be measured by the ratio of independent directors on board to the total number of directors.

Together with measuring the number of independent directors on boards, it is important to define which directors are independent. In an early study on the impacts of independent directors on CEO turnover, Hermalin and Weisbach (1988) classified each director following his principal occupation. Particularly, full-time employees of the corporation were designated as insiders. Directors who did not work full-time for the corporation were classified as outsiders. In order to distinguish clearly the independence of outsiders, Hermalin and Weisbach (1988) classified the third kind of directors who are closely associated with the firm as “grey” directors. In detail, grey directors who were classified as grey because of business dealings were often lawyers, bankers, consultants, or investment bankers. Since there is a conflict of interest, problems inherent in having investment bankers on the board (Mace, 1971), investment bankers were always designated as greys (Hermalin and Weisbach, 1988). Similar to Hermalin and Weisbach (1988), later studies also define independent directors as outsiders who are not currently employed by the firm (Beasley, 1996; Fahlenbrach et al., 2010; Ertugrul and Krishnan, 2011).

In a notable study of Hwang and Kim (2009), independent directors are classified in detail. In particular, they used two classifications of director independence, which are a new measure and a conventional measure. Indeed, the conventional measure is similar

to the prior studies which designates the independent directors are not former or current employees either of the firm or of the firm's subsidiaries, a managers' relative, a supplier or customer of the firm, a recipient of charitable funds, or a provider of professional services. Meanwhile, the new measure defines an independent director is classified as a person who is both socially and conventionally independent. In detail, directors are considered as socially independent unless they have something in common with the CEO, such as having been in military service, or studied in the same university, or being born in the same region, or sharing a third-party connection via other directors, or having the primary employment in the same industry, or having the same academic discipline (Hwang and Kim, 2009).

Following the discussion above, it indicated that prior studies commonly classify independent directors as outsiders who are not current or former employees, and are not closely associated with the firm. It is believed that the classification is appropriate to this study. Besides, the disclosure of information regarding the Vietnamese case is limited and therefore it is hard to gather the information according to the new measure of independent directors defined by Hwang and Kim (2009). Besides, Vietnamese-listed enterprises follow the two-tier board structure. In the two-tier board structure, there are two boards which are the BOM and the Control Board. Hence, it is necessary to define which board is similar to the board of director in the one-tier system. In fact, the BOM is more similar to board of directors in the one-tier system. As a result, it is responsible for the daily operation of the firm and monitoring a CEO. Meanwhile, the Control Board monitors the behaviour of the board and executives. In addition, the members of the Control Board usually are former or current employees of the firm (Bui and Nuino, 2008). Indeed, the operation of the Control Boards in Vietnamese enterprises seems to be more formalistic and operating as a department where the decisions of the BOM and CEO are legalised. Hence, it seems to be more appropriate to consider the BOM in Vietnamese-listed enterprises as the board of directors in one-tier board structure.

Consequently, this study defines the independent director variable as the percentage of independent directors on the BOM. In addition, independent directors are designated as outsiders who are not current or former employees of the firm, and not closely associated with the firm by having business dealing with the firm such as, lawyers,

bankers, consultants, or investment bankers. This measure is similar to the studies of Hermalin and Weisbach (1988), Beasley (1996), Brunello, Graziano, and Parigi (2003), Fahlenbrach et al., (2010) and Ertugrul and Krishnan (2011).

#### **5.5.2.4. CEO ownership**

In accordance to Bhagat et al. (1999), the appropriate measure of director shareholding, which is identified in the most literature on director shareholding and corporate performance, is the shareholding percentage of directors. In this case, regarding CEO ownership as director ownership could be inappropriate. Since the aim of this study is trying to reveal the effects of CEO ownership on CEO turnover, the measure of CEO ownership is required to express the power of the CEO and its effects on CEO turnover.

According to literature, CEO ownership weakens the likelihood of CEO turnover (Denis, Denis, and Sarin, 1997; Dahya, Lonie and Power, 1998; Brunello et al., 2003). Indeed, the prior studies have tried to measure CEO ownership in order to define whether a CEO is concerned as a shareholder in a firm. For example, Brunello et al., (2003) defined the CEO ownership variable as a dummy variable which will take value of one when the CEO is a member of the controlling family or a controlling shareholder, and zero otherwise. Meanwhile, Dedman (2003) designate two dummy variables to measure CEO ownership and indicate a reduction in the protection from dismissal offered to CEOs by share ownership. The first indicator variable, which is designated based on the study of Salancik and Pfeffer (1980), is a dummy variable taking the value of one if the CEO holds at least 4% firm shares. Following the ownership limit implemented by Dahya et al. (1998), Dedman (2003) defined the second variable is an indicator variable which will take the value of one if the CEO holds at least 1% of the firm shares. On the other hand, Kim and Lu (2011) measure the percentage stock ownership held by a CEO in order to express the voting right of a CEO. As a result, voting right plays a vital role on expressing the power of CEOs. It reveals CEOs' ability to make decisions or the level of entrenchment.

Following the measures of CEO ownership in the prior studies, this study designates the CEO ownership variable (CEOWN) as a dummy variable which will take a value of one if the CEO holds more than 5% of firm's shares, and zero otherwise. This measurement



is similar to the measurements undertaken by Dedman (2003) and Brunello et al. (2003). In comparison to the measurement applied by Dedman (2003), this study implements only one indicator variable. Meanwhile, this measure differs to the measure of Brunello et al. (2003) by using the threshold of CEO ownership at 5% of firm's shares. In this study, an individual who is holding 5% or more is considered as a blockholder. In fact, a CEO being a block-holder will have more power by having a voting right (Kim and Lu, 2011). Therefore, he or she could reduce the likelihood of CEO turnover. It is argued that a CEO who is acting as a large shareholder may attempt to maximise firm value if he or she holds a significant amount of his or her firm shares. Also, the CEO ownership would improve the shareholder-manager goal congruence and reduce the need of disciplinary action (Denis, Denis, and Sarin, 1997; Dahya, Lonie and Power, 1998).

### **5.5.3. Control variable**

Following Chapter Four, there are six other factors which also have impact on CEO turnover. These factors in this study are considered as control variables in the logistics regression model. Hence, this section represents and discusses the measures of the variables with appropriate reference to related prior studies.

#### **5.5.3.1. Firm leverage**

Even though the effects of leverage on CEO turnover have received little attention in previous studies, its effects have been approved. Since firm leverage is considered as a control variable, the measure of firm leverage needs to be designated. Simply, leverage is understood and measured by the ratio of the book value of long-term debt to the book value of total assets (Adams and Mansi, 2009). In the studies of CEO turnover, leverage is also normally measured in the same way (Denis and Sarin, 1999; Cheng et al., 2008; Claessens et al., 2008; Adams and Mansi, 2009). Meanwhile, some studies have used the mean leverage as another proxy to measure the effects of leverage on CEO turnover (Mikkelsen and Partch, 1997; Denis and Sarin, 1999; Franks et al., 2001). However, the additional proxy is unnecessary and therefore firm leverage (LEVERAGE) in this study is designated to measure the ratio of the book value of long-term debt to the book value

of total assets. The variable is calculated for each year of observed firms by collecting data from listed enterprises in Vietnam.

#### **5.5.3.2. Firm size**

In order to measure the effects of firm size on CEO turnover, this paper designates a variable (FSIZE) as a control variable in the regression models. In accordance with the finding of Boone et al. (2007), the operation of firm which have large size is usually complex. Furthermore, firm size has been observed as a control variable in several studies of CEO turnover (Parrino, 1997; Lausten, 2002; Eriksson et al., 2001; Kato and Long, 2006b). However, the measure of firm size is different. For example, the most two common proxies of firm size implemented in previous studies are number of employees and sales revenue (Muth and Donaldson, 1998). In fact, several studies implemented the logarithm of sales as a proxy for firm size (e.g., Yermack, 1996; Brickley et al., 1997; Denis et al., 1997; Bhagat and Black, 1999; Shen and Cannella, 2002; Dedman, 2003; Aivazian et al., 2005; Sponholtz, 2006). Meanwhile, a few studies measured firm size by the number of the employees (e.g., Farrell and Whidbee, 2003; Aivazian et al., 2005; Kato and Long, 2006b).

On the other hand, Brookman and Thistle (2009) suggested that many previous studies measure firm size as the book value of assets and the measure is theoretically more appropriate (Gadhoun, 1998; Gedajlovic and Shapiro, 1998; Bloom and Milkovich, 1998; Barnhart and Rosenstein, 1998). Indeed, Liao et al. (2009) indicated that both total assets and total sales are proxies for firm size and they can be interchanged. In fact, there are many studies have measured firm size via the natural log of total assets (Conyon, 1997; Xu and Wang, 1999; Farrell and Whidbee, 2003; Aivazian et al., 2005; Berry et al., 2006; Firth et al., 2006; Wang, 2010). Therefore, this study will implement the natural log of total assets for measuring firm size.

#### **5.5.3.3. Board size**

According to Parrino and Weisback (1999), board size is considered as a determinant of CEO turnover. Particularly, larger boards are less likely to dismiss poorly performing CEOs, while the likelihood of CEO turnover is increased for firms having smaller

boards (Yermack, 1996; Wu, 2000). Regarding the size of board, prior studies commonly measure board size by the total number of board directors (Yermack, 1996; Bhagat and Black, 2002; Adam and Mehran, 2003; Coles et al., 2008; Ertugrul and Krishnan, 2011). However, those studies are undertaken in a one-tier system of board in which there is an only board of directors. Regarding the Vietnamese case, there are two boards which are BOM and Control Board. It is called the two-tier board system and is similarly implemented in German or Chinese companies. Therefore, it is important to define which board or both of the boards are used to measure the number of directors on board.

In accordance to the studies of CEO turnover undertaken in the two tier boards system, there is no distinction or comparison between the two-tier board system and one-tier system. For example, Kaplan (1994) fails to distinguish the differences between the corporate governance of German companies and U.S companies and ignores the differences on effects of the board size on CEO turnover. Meanwhile, there are few studies which have focused on the effects of board size on CEO turnover in China. They seem to consider the BOM (board of directors in some studies) similar to the board of directors on a one-tier board structure. Thus, the measure of board size is the number of directors on the BOM (Shen and Lin, 2009; Wang 2010). As discussed above, there is similar a situation in Vietnam. Additionally, the board of management is considered more appropriate<sup>2</sup>. Finally, the board size (BSIZE) variable in this study is designated to measure the number of directors on the BOM in Vietnamese-listed enterprises.

#### 5.5.3.4. *CEO age*

Theoretically, CEO age enables one to distinguish the difference between forced turnover and natural turnover. Kato and Long (2006a) stated that to control for CEO age is particularly important since the researcher is unable to separate CEO turnover due to normal retirement from disciplinary turnover. Based on the previous studies already mentioned and which measured the effects of CEO age on CEO turnover, there are two major designations for CEO age variable which are a dummy variable (e.g. Huson et al., 2001; Goyal and Park, 2002; Berry et al., 2006; Coles et al., 2008) and the age of CEO

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<sup>2</sup> See further in Section 4.5.2.3

at the observed time (e.g. DeFond and Park, 2001; Bhagat and Bolton, 2008; Ertugrul and Krishnan, 2011). Particularly, the studies which implemented a dummy variable had tried to distinguish natural turnover and forced turnover (Huson et al., 2001). For example, Berry et al. (2006) implement a dummy variable to measure CEO age. The dummy variable takes the value of 1 if departing CEO was between 64 and 66, and equals 0 otherwise. Indeed, DeFond and Park (1999) stated that mandatory retirement at the age of 65 is considered as an important reason for CEO dismissal. Similarly, Goyal and Park (2002) suggest using a dummy variable when the reported reasons for CEO departures are often not reliable. Besides, previous studies typically assume that turnover of CEOs around age 65 are more likely due to normal retirements than to forced departures. However, a dummy variable seems to be unable to reveal the voluntary turnover when a CEO passed the age of normal retirement. With regard to Weisbach (1988), voluntary resignations are more likely when the CEO is between 64 and 66 years of age. Besides, a dummy variable is difficult to show the effects of CEO age on CEO turnover since it implements a cut-off age.

In fact, several prior studies have implemented both a dummy variable and the age of CEO in order to capture the effects of CEO age on CEO turnover. For example, Murphy and Zimmerman (1993) indicated two CEO-age-related variables which includes the age of the CEO and a dummy variable indicating whether the CEO is age 64 or 65. Similarly, Farrell and Whidbee (2003) and Linck et al. (2008) implemented CEO age to proxy for the length of time to retirement, as well as an indicator variable for CEOs who are older than 60. In fact, using both proxies for CEO age helps those researchers to express the effects of CEO age in different types of CEO turnover. Inasmuch as those studies had classified types of CEO turnover. In comparison, this study does not attempt to distinguish the different types of CEO turnover, since the reasons of turnovers are not collected. Moreover, the literature suggested that younger CEOs are more likely to be dismissed than older CEOs (Warner et al., 1988; Jensen and Murphy, 1990). Therefore, the required measure of CEO age has to reveal the effects of age on the likelihood of CEO turnover. Also, there are very few companies in Vietnam, which are privately controlled, have retirement policies. Consequently, CEO age (AGE) variable is measured by the age of CEO at the observed time.

**5.5.3.5. CEO duality and CEO tenure**

In accordance with the literature reviewed in the Chapter Two, CEO duality presents the leadership structure of board. Furthermore, CEO duality is able to represent the power of a CEO. Basically, CEO duality refers to a situation when a single individual holds concurrently CEO position and the chairman of the board. Simply, CEO duality variable is commonly designated following prior studies as a dummy variable which equals 1 if the CEO and the chairman is the same individual and 0 if otherwise (Fan et al., 2007). Therefore, CEO duality (DUALITY) variable in this study is a dummy variable which takes the value of 1 if a CEO is currently chairman of the BOM in listed enterprises and takes the value of 0 otherwise.

Theoretically, CEO tenure seems to have a similar role to CEO ownership as a proxy for management entrenchment (Morck, Shleifer, and Vishny, 1988). Besides, CEO tenure reflects the CEO power and therefore the more power a CEO has, the longer her/his tenure (Allen and Panian, 1982; Hermalin and Weisbach, 1998; Hambrick and Fukutomi, 1991; Ocasio, 1994). According to Shen and Cannella (2002), CEO tenure is designated as a as a dummy variable which equals 1 if the CEO is dismissed in early years of tenure and equals 0 otherwise. The tenure is designated a cut-off by selected five years of tenure. However, this measure is inappropriate to distinguish the effects of CEO tenure on CEO turnover. Indeed, this paper attempts to examine the relationship between the length of tenure and CEO turnover. As Goyal and Park (2002) suggested, the length of being CEO can reveal its effects on CEO turnover either positively or negatively. Particularly, when long tenure is a clue that the CEO is closer to retirement, the relationship between CEO turnover and CEO tenure seems to be positive. Nevertheless, CEOs having longer tenure are able to have established a power base over time. Thus, it is suggested that CEO turnover is negatively related to CEO tenure (Salancik and Meindl, 1984). Hence, the proxy of CEO tenure needs to be expressed in the length of tenure. Based on the prior studies, thus measuring the effects of CEO tenure on CEO turnover, the time the CEO has been in position is a proxy for the CEO tenure (TENURE) variable in this study. This follows the measure in the studies of Goyal and Park (2002), Bhagat and Bolton (2008), and Chang and Wang (2009), Bushman et al. (2010).

## 5.6. ANALYSIS PROCEDURE

Following the definition of research model and variables, this section represents the analysis procedure of this study in order to examine the determinants of CEO turnover. Firstly, the development of logistic regression is presented. It points out the development process of the regression models in this study in order to test the hypotheses. Lastly, the rest of this section describes analysis methods which are implemented to analyse the collected data.

### 5.6.1. The development of logistic regression models

Based on Section 4.5 above, it is clear that variables which are applied in the research model are defined. Therefore, the defined research model (4) in Section 4.4.2 can be expressed as;

$$(5) \quad \text{TURNOVER}_i = \beta_0 + \beta_1 \text{PERFORMANCE}_i + \beta_2 \text{STATE}_i + \beta_3 \text{INST}_i + \beta_4 \text{INDV}_i + \beta_5 \text{FOR}_i + \beta_6 \text{CONC}_i + \beta_7 \text{OUTSIDER}_i + \beta_8 \text{CEOWN}_i + \beta_9 Z_i + \varepsilon$$

In the model (5), PERFORMANCE is firm performance; STATE, INST, INDV are dummy variables which present the presence of state, non-state and individual shareholding; CONC is the measure of concentrated ownership; OUTSIDER measures the percentage of independent in the BOM; CEOWN presents the proportion of shares holding by CEOs; and Z exhibits the control variables which include firm leverage, firm size, board size, CEO age, CEO tenure, and CEO duality. Indeed, the model (5) above is considered as the benchmark model and is able to test the first group of hypotheses which are Hypotheses 1a-g, 2a-c, 3a-c. Those hypotheses are defined to examine the determinants of CEO turnover.

Moving to the hypotheses outlined in Section 3.3.2, the task is to measure the sensitivity of various factors on the CEO turnover-performance link. Those factors include state ownership, non-state institutional ownership, individual ownership, the level of concentrated ownership, the percentage of independent on board, and CEO ownership. Practically, to test Hypothesis 4c, it is augmented the benchmark model (5) is augmented by CONC, the concentrated ownership, and an interaction term involving

CONC and PERFORMANCE. Particularly, the estimated coefficient on the interaction term PERFORMANCE\*CONCE will help to test the Hypothesis 4e, or whether CEO turnover becomes less sensitive to performance when the level of concentration in ownership structure is high. Similarly, to test the Hypothesis 4d, the interaction term PERFORMANCE\*OUTSIDER is added to augment the benchmark model. It would present the effects of the percentage of independent directors on boards on the link between firm performance and CEO turnover. Together, to measure the impacts of CEO ownership on the link, another interaction, PERFORMANCE\*CEOWN, is added. Besides, the interaction PERFORMANCE\*STATE expresses the effects of state ownership. Meanwhile, the influence of non-state ownership including non-state institutions and individuals on the link between CEO turnover and firm performance is presented by the interactions which are PERFORMANCE\*INST and PERFORMANCE\*INDV. Consequently, the benchmark model is augmented and developed to new model below;

$$(6) \text{ TURNOVER}_i = \beta_0 + \beta_1 \text{PERFORMANCE}_i + \beta_2 \text{STATE}_i + \beta_3 \text{INST}_i + \beta_4 \text{INDV}_i + \beta_5 \text{CONC}_i + \beta_6 \text{OUTSIDER}_i + \beta_7 \text{CEOWN}_i + \beta_9 \text{PERFORMANCE}_i * \text{STATE}_i + \beta_{10} \text{PERFORMANCE}_i * \text{INST}_i + \beta_{11} \text{PERFORMANCE}_i * \text{INDV}_i + \beta_{12} \text{PERFORMANCE}_i * \text{CONC}_i + \beta_{13} \text{PERFORMANCE}_i * \text{OUTSIDER}_i + \beta_{14} \text{PERFORMANCE}_i * \text{CEOWN}_i + \beta_8 Z_i + \varepsilon$$

Finally, the model (6) enables one to draw a comprehensive picture of CEO turnover in Vietnamese-listed enterprise. Also, it is helpful for analysing the coefficient of the determinants of CEO turnover through collected data.

### 5.6.2. Analysis methods

This section briefly describes the analysis methods used in the following chapters. In fact, in an experimental study, there is a variety of statistical techniques which are able to be implemented. First of all, descriptive statistical figures such as, the mean and standard deviation of subjects responding ‘yes’/‘no’ to particular questions can be used. However, previous studies on CEO turnover suggest applying t-statistics and z-statistics to test the turnover rates among observed firms (DeFond and Park, 1999; Goyal and

Park, 2002; Firth et al., 2006; Kato and Long, 2006a; Chang and Wong, 2009). In particular, DeFond and Park (1999) advised that the t-statistics is referring to t-tests comparing the means, whereas the Z-statistics refer to Wilcoxon 2-sample tests comparing the central tendency of the two samples. In the study of Firth et al. (2006), t-statistics and Z-statistics are used to test for equality between the highest and lowest quartiles based on firm performance. Similarly, Chang and Wong (2009) also use t-statistics to analyse the relationship of firm performance with CEO turnover. Therefore, this study follows suggestions from prior studies and is employing t-statistics and z-statistics in order to analyse the effects of each determinants of CEO turnover. Along with the suggested statistics, this study is going to apply Pearson correlation tests which help to indicate the linear correlation between two variables. Hence, these correlation tests are able to examine the correlation between variables designed in this study.

On the other hand, the strongest analysis method which is applied is the logistic regression model. Actually, the model (5) enables one to estimate the likelihood of CEO turnover given a set of repressors. Kato and Long (2006a) suggested implying the maximum likelihood for estimating the coefficients of variables on research models. It is believed that after regressing CEO turnover with the independent and control variables, the group of Hypotheses 1, 2, and 3 are able to be tested. Similarly, based on the model (6) the group of Hypotheses 4a-f can be tested by employing the maximum likelihood method. In another study, Chang and Wong (2009) implemented the Huber (1964) and White (1980) transformation method to estimate the model with adjustment for within-cluster correlations for each CEO. Additionally, a Pearson correlation is employed to test and find the correlations among the variables. This method was also used by DeFond and Park (1999), and Goyal and Park (2002). Therefore, realizing there are different methods to estimate and analyse the logistic regression model, it is necessary to define the appropriate method for this study.

In fact, Hosmer and Lemeshow (1989) suggested that implementing the maximum likelihood method for a single variable is not costly computational or a difficult task. Nevertheless, when a research analysing large data sets with many variables, researches should consider to implement the maximum likelihood estimates (Hosmer and Lemeshow, 1989). However, employing maximum likelihood is useful for examining



the fit of the logistic regression model in this study. Therefore, it is necessary to implement this analysis. Consequently, this study employs a variety of analysis tools which are maximum likelihood (Kato and Long, 2006a; Firth et al, 2006) and the Pearson correlation method to find the correlation between variables (DeFond and Park, 1999; and Goyal and Park, 2002).

## 5.7. RESEARCH DATA

The section provides data sources which are used to collect data in order to examine the determinants of CEO turnover in this study. Besides, the sampling method is presented and further, the sample size of this study is indicated. Following those sub-sections, the last sub-section is data gathering which exhibits the way of data collection in this research.

### 5.7.1. Data sources

Since this study focuses on listed enterprises in Vietnam, some of the data sources which can be used for collecting data are public. According to Article 104 of the Securities Law 2006, listed enterprises have to publish their information about accounting information and the replacement of a member of the BOM or the Board of Members, the (General) Director or the Deputy (General) Director of their enterprises. Also, the Law states that:

*“...the publication of information shall be conducted via the mass media or printed matters of the publishing organisation or company or the communication media of the Securities Trading Centre or Stock Exchange.”*

(Clause 4, Article 100, the Securities Law, 2006: 52)

Following the Law, the two Securities Trading Centres in HoChiMinh and Hanoi can be used as data sources for this study. Indeed, the necessary data was acquired from the annual financial reports of listed enterprises that were disclosed on the Web pages of the Ho Chi Minh Securities Exchange and the Hanoi Securities Exchange<sup>3</sup>. Up to the end of 2010, there were 277 enterprises listed on the HoChiMinh Securities Exchange and 368

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<sup>3</sup> <http://www.hsx.vn>, <http://www.hastc.org.vn>

enterprises listed on the Hanoi Securities Exchange. Hence, the total listed enterprises on the two centres are 646 enterprises including both private control enterprises and SOEs. The necessary information relates to accounting information, stock information and changes in the CEO position of listed enterprises.

Practically, in order to gain the information of CEO turnover, this study uses the databases of HoChiMinh and Hanoi Securities Exchange Centres to identify for each listed enterprise in each year whether CEO turnover was experienced and whether the CEO position and the Chairmanship are served by the same individual. Those databases provide data on the starting year of each CEO's current term as well as the changes in the position. Together, employing those databases, the information about the Board of Management for each enterprise is gained. In accordance to the Securities Law 2006, if there is any change of members of the BOM, the change will be published and announced in the websites of listed enterprises as well as the web pages of those centres.

On the other hand, regarding availability of accounting information from listed enterprises' annual reports, the process of information disclosure is slow in Vietnam, and therefore publication of the reports might be late on the websites of the Securities centres. Normally, the annual reports of previous years are available in the middle of the following years. Due to this matter, other data sources, which can be implemented instead of centres, are the enterprises' websites or the State Securities Commission. Nevertheless, the same problem can occur when accessing the enterprises' websites. Hence, accessing the data base of the State Securities Commission with hard copies enables one to gain necessary information. Along with those data sources, the annual survey of enterprises conducted by Vietnam's General Statistical Office (GSO) is another comprehensive source of data. The combination of those data sources produces a more pertinent and complete data set on Vietnamese-listed enterprises. Also, it allows examining the determinants of CEO turnover in Vietnam.

### **5.7.2. Sampling method**

In pursuit of the aim of this study to examine the determinants of CEO turnover, this study measures the changes in CEO position, and evaluates the effects of CEO turnover

determinants. Hence, the unit of observation in this study's analysis is the firm-year. Using listed enterprises on Vietnamese Securities Exchange Centres, there are 646 enterprises counted at the end of 2010. If this study employs all of those enterprises from the open time of the stock market to 2010, the number of observations conducted from the eleven year observations would seem to be an overload for this study. Hence, this section is designated to estimate the sample size and sampling method which are appropriate to implement in order to examine the determinants of CEO turnover. Particularly, the sample size that is needed to test the Hypotheses of this study is estimated. Furthermore, the sampling method which reveals the sample of this study is presented.

#### *5.7.2.1. Reasons for the choice of the method for sample size determination*

According to Dell, Holleran, and Ramakrishnan (2002), there are many statistics books which have tables which help to compute sample size. Besides, recent statistical programs also yield sample size when size of difference, significance level and power to be detected are entered. However, it is required to define which statistical method is suitable for this study. With regard to the implementation of logistic regression models in this study, a variety of statistical methods to estimate sample size are considered. In fact, Kelly and Maxwell (2003) suggest that when employing the logistic regression model, testing null hypothesis has a vital role. Besides, researchers are able to gain a better understanding of the phenomenon by understanding the likely range of the parameter value rather than simply inferring the statistical significance of the parameter. As one of the statistical methods, power analytic perspective can be used to estimate sample size (Kelly and Maxwell, 2003). This method is often employed to make the obtaining parameter estimates are more reasonable probability and statistically significant. However, point estimates for null hypotheses are seldom exactly true in nature, even with power analysis (PA) becoming more common (Cohen, 1994). Hence, a given domain of research would have misleading results (Sedlmeier and Gigerenzer, 1989; Rossi, 1990; Muller and Benignus, 1992).

Following Hsieh, Bloch and Larsen (1998), researchers applied multiple logistic regression attempts to test the effect of a specific covariate, possibly in the presence of

other covariates, on the binary response variable. Thus, in order to test those, Alam, Rao and Cheng (2010) reported that there are some common approaches of sample size used in multiple regression analysis following Whittemore (1981), Hsieh et al. (1998), Self and Mauritsen (1988) and Self et al. (1992). In particular, Self and Mauritsen (1988) and Self et al. (1992) used generalized linear models and the score tests to estimate the sample size through an iterative procedure. However, the approach is complicated and iterative without an explicit formula (Hsieh et al, 1998; Alam et al, 2010), and therefore it is inappropriate for use in this study.

On the other approaches, Whittemore (1981) and Hsieh et al. (1998) have proposed different methods for determining sample size in the context of testing the significance of a slope parameter in logistic regression. Their sample size formulae have been incorporated in some statistical software packages. Following Whittemore (1981), a formula for small response probabilities which derived from the information matrix is proposed (Alam et al, 2010). In particular, Whittemore (1981) presented an approximate expression for Fisher's information matrix based on the moment generating function of the distribution of the covariates. Indeed, Whittemore's formula is based on the resulting asymptotic variance of the maximum likelihood estimator of the parameters (Shieh, 2001). Besides, an additional assumption which is implemented is that the overall response probability is small. Considering the approaches following Hsieh et al (1998), the critical idea is that the logistic regression problem can be viewed as a two-sample problem. Based on this point of view, Hsieh et al (1998) provided a formula for the approximate sizes of the sample required for simple logistic regression which is used for comparing two means or for comparing two proportions. In order to calculate the sample size for multiple logistic regressions, this formula is adjusted by a variance inflation factor. Nevertheless, the calculations fail badly when the covariate is a discrete probability distribution (Alam et al., 2010). Furthermore, both Whittemore (1981) and Hsieh et al. (1998) formulas do not seem to meet the nominal levels of power for a certain range of parameter values (Shieh, 2001).

Although the approach following Whittemore (1981) incurs error in the nominal levels of power, the approach is employed more frequently than the Hsieh et al (1998) approach. It is modified in order to discover alternative methods of sample size

estimation. For example, Hsieh (1989), Hsieh et al (1998), Shieh (2001) and Alam et al (2010) have provided explicit formulae for determining the sample size based on the approach of Whittemore (1981). Besides, the approach is based on the maximum likelihood of logistic regression models for determining the sample size. Thus, it might increase the robustness of the research models by examining the ‘fitting of the models’ via the maximum likelihood. Therefore, the approach of Whittemore (1981) is applied to estimate the needed sample size of this study.

### 5.7.2.2. Sample size estimation

Based on the logistic regression model, Whittemore (1981) made a variation to estimate the needed sample size. As represented above, the logistic regression model can be given as equation (7)

$$\pi(x) = \frac{e^{f(x)}}{1 + e^{f(x)}} \quad (7)$$

In equation (7), Whittemore (1981) considered  $f(x)$  in a simple form as  $f(x) = \gamma_0 + \gamma_1 x$ . Hence, the equation (7) is presented as;

$$\pi(x) = \frac{e^{\gamma_0 + \gamma_1 x}}{1 + e^{\gamma_0 + \gamma_1 x}} \quad (8)$$

Further, the maximum likelihood is implied. To apply this method, it is necessary to construct a likelihood function which represents the probability of the observed data as a function of the unknown parameters. Following Hosmer and Lemeshow (2000), estimating  $\gamma_0, \gamma_1$  in the equation (09) is the principle of maximum likelihood.

$$L(\gamma) = \ln[l(\gamma)] = \prod_{i=1}^N \left[ \frac{e^{\gamma_0 + \gamma_1 x}}{1 + e^{\gamma_0 + \gamma_1 x}} \right]^{y_i} \left[ \frac{1}{1 + e^{\gamma_0 + \gamma_1 x}} \right]^{1-y_i} \quad (09)$$

Based on the equation (09), Whittemore (1981) provided a formula to calculate sample size  $N$ , which is;

$$N = \frac{\left( Z_{\alpha} + e^{\frac{5A^2}{4}} Z_{\beta} \right)}{e^{\gamma_0} A^2} * \left[ 1 + 2e^{\gamma_0} * \frac{\left[ 1 + (1 + A^2)e^{\frac{5A^2}{4}} \right]}{1 + 2e^{\gamma_0}} \right] \quad (10)$$

Indeed, Whittemore (1981) employed two assumptions in order to measure the sample size  $N$ . The first one assumes that  $\gamma_0$  is known and second one is  $e^{\gamma_0 + \gamma_1 x} \cong 1$ . Besides, in typical sample size calculation, three ingredients are essential: size ( $\alpha$ ), power ( $1 - \beta$ ), and specific alternative value of the parameter of interest ( $\gamma_1 = A$ ).

Following the equation (10), this study calculates the approximately  $N$  observations are needed to detect an odds ratio of  $e^5 = 1.65$  with  $\alpha = .05$  significance and  $1 - \beta = .95$  power. The result is approximately  $N = 582$  observations (Whittemore, 1981).

#### 5.7.2.3. *Sample recruitment*

With regard to the limitation of this study, it is believed that observation of all listed enterprises in the Vietnamese Securities Exchange Centres is difficult. Hence, this study identified the sample size which ensures the efficiency of the experiment presented above. According to Saunders (2007) non-probability sampling which means that all units do not have the same chance to be selected. Under the judgemental sampling method, researchers select units to be sampled based on their knowledge and professional judgement. Particularly, the selection of sampling units is based on knowledge of the condition or feature under investigation and on professional judgement. It reveals that judgemental sampling is distinguished from probability-based sampling in which inferences are not following statistical scientific theory. This method is most commonly employed with small samples. For example, a case study has to be particularly informative. Therefore, the target population is limited and depends entirely on the accuracy and validity of professional judgement. Aczel and Sounderpandian (2008) argued that nonprobability sampling methods provide no objective way of evaluating how far away from the population parameter our estimate may be. In addition, recruited sample following judgemental method provide results that may be biased. Besides, Saunders (2007) stated that probabilistic statements about parameters

are not possible. Thus, the recruited sample may not be a true representative of the population of interest.

In comparison, probability sampling methods include simple random sampling, systematic sampling, cluster sampling, and stratified random sampling (Saunders, 2007). Following these methods, the target population has a known and the member of the population has non-zero chance of being selected into the sample. For example, random sampling enables one to pick up samples randomly among population. Meanwhile, a sample, which recruited according to stratified random sampling, is based on comprising different groups where elements in each group are similar to one another in some way (Aczel and Sounderpandian, 2008). Therefore, it is considered that those methods are inappropriate to implement in this study. Corbetta (2003) suggested that a judgemental method can produce effective sampling for a defensive decision by using in conjunction with other sampling design, although the method has limitations. Consequently, it leads this study to employ a non-probability sampling method which is judgemental sampling.

In this study, the judgemental method is implemented under the purpose of estimation of the observation time. As discussed above with the promulgation of the Enterprise Law 2005 and the Securities Law 2006, the legal documents have created a charter for listed enterprises in order to implement corporate governance systems. It is important to this study, since this study examines the effects of various factors related to corporate governance. Furthermore, the report systems and corporate governance systems have been following a united system under the Laws. Thus, the collection and analysis based on the corporate systems and reports of Vietnamese-listed enterprises are consistent. Therefore, it is believed that the 2006 year is appropriate for the research to start observation. Besides, the research conducts the data in five (5) years period in order to examine the effects of determinants of CEO turnover. Consequently, the observation period is starting from 2006 to 2010.

Based on the defined observation period, from 2006 to 2010, it found that the number of listed enterprises has increased year by year. This number reached 646 enterprises listed in Hanoi and HoChiMinh Securities Exchange Centres by the end of December

2010. When conducting the 646 enterprise to sample, the firm-year unit will be 1783 observations which are considered as an overload for this study. Regarding this limitation, the judgemental method is applied in order to define an appropriate sample to research. Indeed, to capture the change of CEO positions, and the effects of determinants on CEO turnover decision such as, firm performance, ownership structure, the percentage of independent directors, it is necessary to take continuous observations. Hence, the recruited enterprises are expected to provide continuous data in order to fulfil this aim. It means that recruited enterprises have to be observed in the period 2006-2010.

Furthermore, the availability of information, corporate system and reports' system need to be consistent. Therefore, it is arguable that the enterprises which listed after the year 2006 might provide differences in corporate governance and report system without the Securities Law 2006 requirement. Based on this fact, it is believed that the enterprises listed in the end of 2006 are able to fulfil the above requirements. Consequently, this study applies all enterprises listed at the end of December 2006 in order to define the sample size of the research. The number of the listed enterprises is 156 and the number of firm-year observation is 780. In comparison to the estimated sample size, the number of observation is over 582 and can detect an odds ratio which ensures the 'fitting of the logistic regression model'.

### **5.7.3. Data gathering**

By choosing 156 Vietnamese-listed enterprises on the Securities Exchange Centres by the end of December 2006, the data of those enterprises will be collected. Firstly, accounting and financial information from 2006 to 2010 is gathered from the enterprises' annual reports submitted to the two Securities Exchange Centres. Besides, the number of employees in the enterprises is collected via the annual reports in order to measure the size of enterprises. In fact, the annual reports are able to download on the websites of the two Centres. Together, the information of current CEOs in the enterprises is gathered from the registration of the enterprises. Based on the registrations, information of CEO age, CEO duality, and CEO tenure is collected. Also, the information on ownership structure can be gathered via the registration. Similarly,



the number of members and information on members on the BOMs are provided through the registration.

In order to collect the changes in CEO positions, ownership structure and BOM members, the information can be gathered by the announcements of those enterprises. Indeed, the enterprises have to publish any major change related to ownership structure, CEO ownership and member of BOM under the Securities Law 2006. However, the information could be published via various ways such as, on the websites of Securities Exchange Centres or enterprises' website or reports handed to the State Securities Commission. Hence, depending on the availability of information, the information on changes of ownership structure, CEO position and BOM are gathered via different data sources. Notably, full profile of each member of BOM is needed. Since this study attempts to measure the effect of independent directors on boards, it needs to follow a variety of condition in order to define which member on board is independent. Therefore, accessing the State Securities Commission's data base is necessary to gain the information of members on BOMs.

### **5.8. SUMMARY**

In summary, the research philosophy of this study is positivism. Besides, this study implements a deductive approach. In particular, it is following the five stages as Robson (1993) which are;

- To comprise deducing a hypothesis
- Expressing the hypothesis
- Suggesting a relationship between two specific variables
- Testing the operational hypothesis and subsequent examination of the outcome.
- To modify the hypothesis based on the outcomes in case it is necessary.

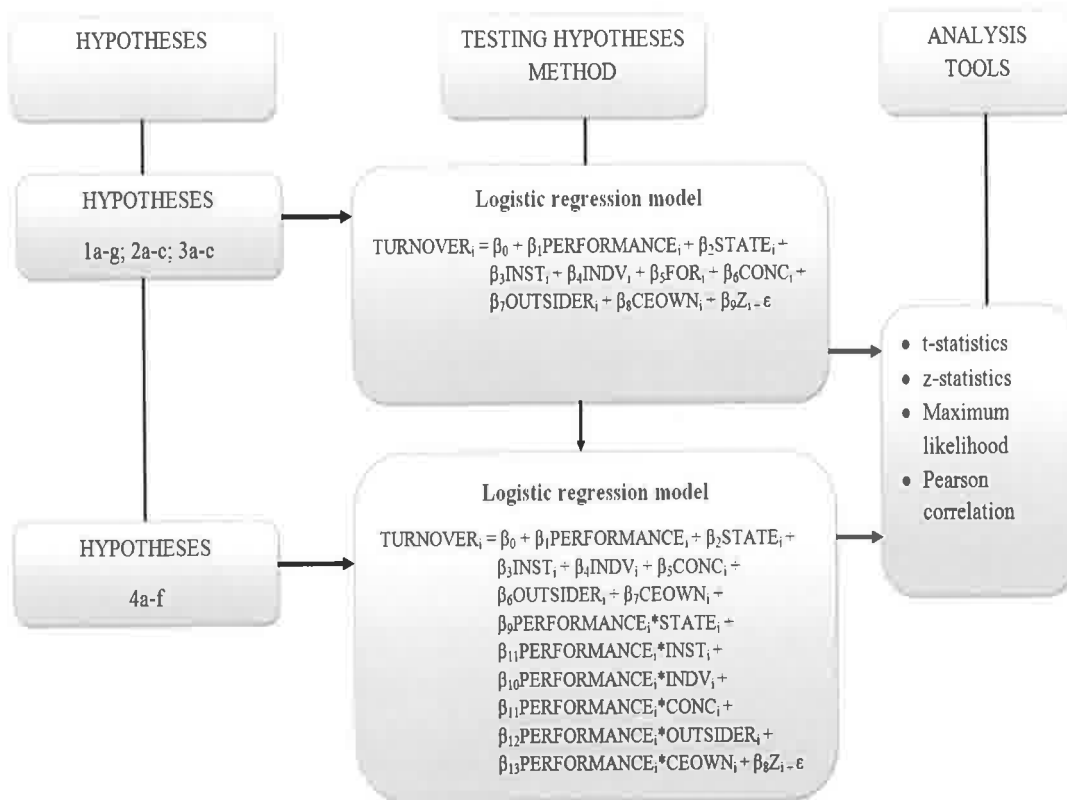
Based on a series of hypotheses which are constructed to answer the research questions in depth, this study will employ a logistics regression model in order to test the hypotheses. Furthermore, the definition and the measures of the variables are defined. The variables can be summarised as in the Table 5-1 below.

**Table 5-1: Measures of Variables**

Variables	Measure
<b>Dependent Variable</b>	
<i>CEO turnover (TURNOVER)</i>	A dummy variable equal to one if there is a change in the general director during the fiscal year and zero otherwise.
<b>Independent Variables</b>	
<i>Firm performance (PERFORMANCE)</i>	Measured by industry adjusted return on asset (ADJROA), industry adjusted profit margin (ADMARGIN), and industry adjusted earnings per share (ADJEPS). Besides, firm performance is also measured by average values of the three proxies (AROA, AEPS, AMARGIN)
<i>Ownership structure variables</i>	Including state ownership (STATE), non-state institutions and private companies (INST), individual shareholders (INDV), and concentrated ownership (CONC). STATE, INST, INDV are dummy variables equal to one if there is a shareholder held 20% threshold of firm share who is STATE, INST, INDV, and equal zero otherwise. CONC is measure by HHI index.
<i>Board composition (OUTSIDER)</i>	The percentage of independent directors measured by the ratio of independent directors on the to the total number of BOM directors
<i>CEO ownership (CEOWN)</i>	is a dummy variable which will take a value of one if CEO holding more than 5% of firm's shares, and zero otherwise.
<b>Control Variables</b>	
<i>Firm leverage (FLEVERAGE)</i>	is designated to measure by the ratio of the book value of long-term debt to the book value of total assets.
<i>Firm Size (FSIZE)</i>	the natural log of total assets
<i>Board size (BSIZE)</i>	the number of directors on the BOM
<i>CEO age (AGE)</i>	the age of CEO in the observed year
<i>CEO duality (DUALITY)</i>	a dummy variable which takes the value of 1 if a CEO is currently chairman of Board of Management
<i>CEO tenure (TENURE)</i>	is the time the CEO has been in the position

Further, the development of the logistic regression model provides two models which are implemented to test the hypotheses of this study. Also, the analysis procedure which helps to analyse the collected data is presented (Figure 5-4).

Figure 5-4: Analysis procedure



In order to ensure the efficiency of the process of experiment, the research data sources are defined. By carefully considering the availability of required information, a variety of data bases have been chosen for this study so that data will not be missed. The major data bases comprise the data bases of HoChiMinh and Hanoi Securities Exchange Centres, the State Securities Commission, the websites of listed enterprises and Vietnam's General Statistical Office. Along with the research data source, the sampling of this study is built based on indicating the needed sample size according to Whittemore (1998) formula and judgmental sampling method. Indeed, Whittemore's formula helps to estimate the approximate sample size for logistic regression models. Meanwhile, the judgemental sampling method enables to define the observation period and observed enterprises on Vietnamese stock markets. In detail, 156 listed enterprises are selected with 780 firm-years observations. Consequently, the chapter provides a comprehensive guide for the next chapter in order to analyse the collected data. It ensures to provide good empirical findings for this study.

## CHAPTER SIX: DESCRIPTIVE STATISTICS

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## 6.1. INTRODUCTION

In this chapter, the collected data, which follows the designation indicated in Chapter Five, is analysed. Firstly, descriptive statistics are performed in order to present and descriptively analyse the data collected from Vietnamese-listed firms. In particular, sample description generally represents the data of employed firms in this study's sample. Furthermore, CEO turnover, firm characteristics, board characteristics, and CEO characteristics are descriptively analysed. Indeed, the data description will bring out basic observations of listed firms in Vietnam.

Together with data description, the chapter is going to examine the correlation between variables defined in this study. This step provides a deeper analysis on the correlation between variables. The correlation analysis is concentrated in the correlations between firm characteristics, board characteristics, CEO characteristics and CEO turnover. Based on the correlation analysis, the correlations among variables in this study are indicated. As a result, it is important to understand how a variable correlates to other variables. For example, the correlation analysis is able to provide how characteristics of CEOs in Vietnamese-listed firms are differed by firm characteristics or board characteristics. Moreover, the relationship of firm performance with the presence of large shareholders exhibits the differences among different types of listed firm.

Along with this analysis, univariate analysis is also implemented in order to exhibit an initial assessment of the hypotheses in this study. Moreover, it helps to check the robustness of results from logistics regression models in the following chapter.

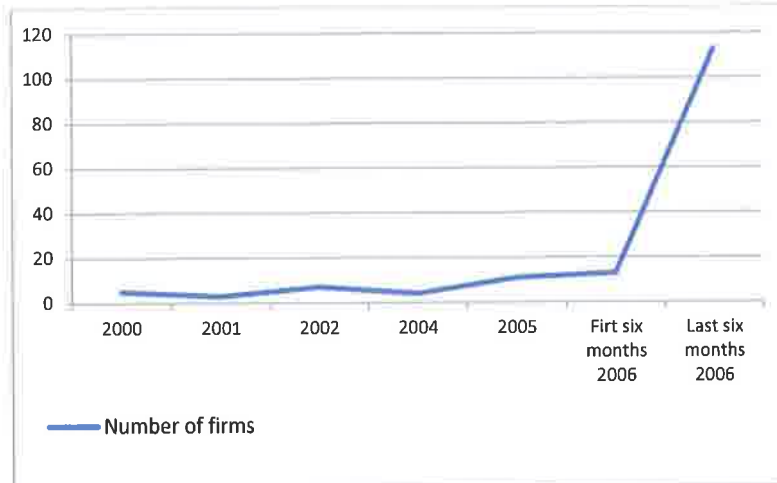
## 6.2. DATA DESCRIPTION

This section presents the descriptive statistic of the employed sample of this study. In detail, it provides a sample description along with other data descriptions about employed firms such as, CEO turnover, firm characteristics, board characteristics, and CEO characteristics. Overall, this description stage attempts to provide basic information about the research sample.

### 6.2.1. Sample Description

As mentioned in Chapter Five, the sample of this study is conducted on 156 listed firms to the end of December, 2006 in two Securities Exchange Centres which are in Hanoi and HoChiMinh. The observation period for the 156 listed firms is from 2000 to 2010. In this period of five years, the total number of observations in this study is 780 firm-year observations. In detail, there are 77 firms listed in Hanoi Centre and 79 firms listed in HoChiMinh Centre. Besides, the listed years of them are different among the 156 firms. Particularly, most of the observed firms are listed in 2006, though there were a few firms listed in 2000. Especially, the number increased sharply in the second half of year 2006. Indeed, the reason for the increase in number of listed firms is the promulgation of the Enterprise Law 2005 and the Securities Law 2006. Under the promulgation of these laws, companies in Vietnam adjusted and gained opportunity to list their stock on the stock market.

**Figure 6-1: Number of firms listing by year**



Based on the information of observed firms, there are 113 firms listed in the last six months of 2006, whereas there are only 5 firms listed in 2000, 3 firms in 2001 and 7 firms in 2002. It confirms that the number of firms joining the stock market was increasing because of the change in the legal systems of Vietnam which are the Enterprise Law 2005 and the Securities Law 2006. Besides, the 'Doi moi' economic reform is another factor which has influenced the increase of listed enterprises. As a

result, there were over 3,000 SOEs which had been privatized. The privatized SOEs include large and important enterprises. Additionally, most of them have been operating in construction, manufacturing and transportation (Truong et al., 2006).

**Table 6-1: Industries of observed firms**

No	Industries	Number of firms
1	Agribusiness	3
2	Aquaculture	3
3	Construction/Real Estate	32
4	Energy	13
5	Finance/Banking/Investment	6
6	Food and beverage	11
7	Manufacturing/ Material products	47
8	Mining	5
9	Pharmaceutical	2
10	Printing/Publisher/Educational equipment	10
11	Technologies/Telecommunication	4
12	Textile/Garment	2
13	Trading/ Service	7
14	Transportation	11

In this study, the sample firms are operating in a variety of economic sectors. Besides, some of them are operating in two economic sectors such as real estate and construction. Regarding multi-industries firms, the study indicated fourteen industries (Table 6-1) based on the industry classification of the State Securities Commission. In particular, construction/real estate and manufacturing/material products are two sectors which have the most number of firms in this study's sample. The proportion of listed firms is the result of economic reform which led many SOEs in manufacturing and construction to become joint stock companies and being listed in the stock market. By comparison, the number of observed firms in the textile/garment and pharmaceutical industry is only 2. Meanwhile, the number of firms in energy, food and beverage, printing/publisher/education equipment, and transportation sectors are around 10 firms in the research sample. Together with those industries, the sample of this study includes 6 firms operating in the financial and banking sector, 7 firms in the trading and services industry, and 5 firms in the mining industry. Besides, there are only 2 firms in agribusiness and 2 firms in aquaculture sectors which have been observed in this study.

In general, the number of listed firms in this study's sample arguably covers most economic sectors in the Vietnamese economy.

### 6.2.2. CEO Turnover

In considering CEO turnover, descriptive analysis provides that there were 88 turnovers in CEO position by observing 156 Vietnamese-listed enterprises from 2006 to 2010. Among the 88 CEO replacements, 46 replacements occurred in firms listed in HoChiMinh Centre, and 44 replacements occurred in firms listing in Hanoi Centre. Besides, over 57% of CEOs were replaced in the second half of the fiscal year. For the rest of CEO replacement, turnover in the end of the first quarter of fiscal year was 17%, whereas 26% of CEO replacements were observed at the end of second quarter of fiscal year. Overall, the percentage of CEO turnover was 11.28% of 780 observations. Particularly, there were 7 turnovers in 2006, 18 turnovers in 2007, 22 turnovers in 2008, 24 turnovers in 2009, and 17 turnovers in 2010.

**Table 6-2: Description of CEO turnover**

Industries	2006	2007	2008	2009	2010	Total
Agribusiness	0	0	1	0	0	1
Aquaculture	0	0	0	1	0	1
Construction/Real Estate	4	4	5	1	3	17
Energy	1	1	1	2	3	8
Finance/Banking/Investment	0	1	1	1	1	4
Food and beverage	1	0	4	2	1	8
Manufacturing/ Material products	0	8	5	10	7	30
Mining	0	0	1	1	0	2
Pharmaceutical	0	0	0	0	0	0
Printing/Publisher/Educational equipment	0	1	1	3	0	5
Technologies/Telecommunication	0	0	1	1	1	3
Textile/Garment	0	0	0	1	1	2
Trading/ Service	0	1	0	0	0	1
Transportation	1	2	2	1	0	6
Total	7	18	22	24	17	88

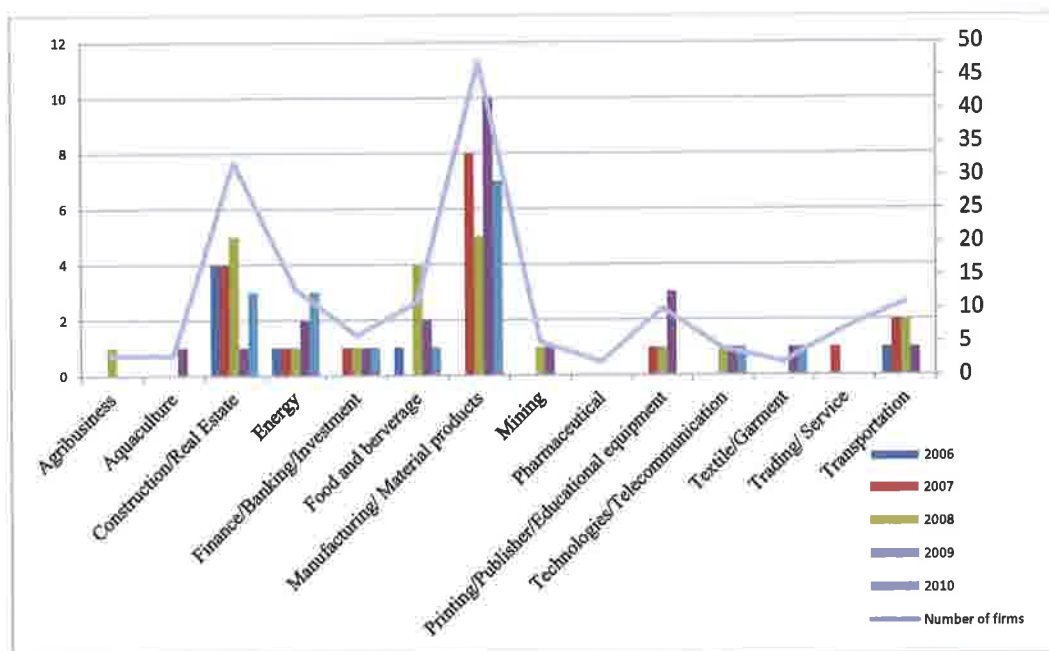
Especially, most of industry experienced CEO turnover in 2009, excepting firms in the trading and service sector, pharmaceutical and agriculture industries. On the other hand,



there were only four industries experienced CEO turnover in 2006 which were construction, energy, food and beverage, and transportation. Among those industries, the construction and real estate industry had 4 CEO replacements in 2006.

From the Table 6-2, the largest number of changes in CEO position is identified in firms operating in the business sector of manufacturing and material products. Moreover, the business sector had the most changes in CEO positions from 2007 to 2010. Especially, there were 10 firms experiencing CEO turnover in 2009. It might be explained for the highest number of CEO replacements in the sector is the number of firms which are observed in this study's sample, 47 firms. Similarly, the construction and real estate sector provided 32 firms to the research sample and experienced 17 changes in CEO position. However, the number of changes in CEO position in construction and real estate sector is smaller than in the manufacturing sector in the period of 2007-2010. In comparing the two business sectors, firms having business in trading and service, textile and garment, mining, aquaculture and agribusiness have the smaller replacements in CEO position, less than 3 times during the observed period. Besides, these industries have smaller proportions of firms in the sample of this study.

Figure 6-2: Number of firms and CEO Turnover



Other industries such as energy, food and beverage, and transportation have from 6 to 8 CEO replacements occurring in the observed period. Particularly, the energy sector is similar to the construction and real estate sector in which there is at least one replacement occurring each year. Together with the sectors above, firms in education equipment and the financial sector experienced CEO turnover. There were 5 and 4 replacements over the observation period respectively. In contrast to most of industries in the research sample, the pharmaceutical sector is the only sector which had no replacement during 2006-2010. Indeed, the total observation of firms in the sector was only 10 firm-years observation conducted by 2 firms. Therefore, it seems to show that the more observations are undertaken in a business sector, the more CEO turnovers are observed.

### **6.2.3. Firm Characteristics**

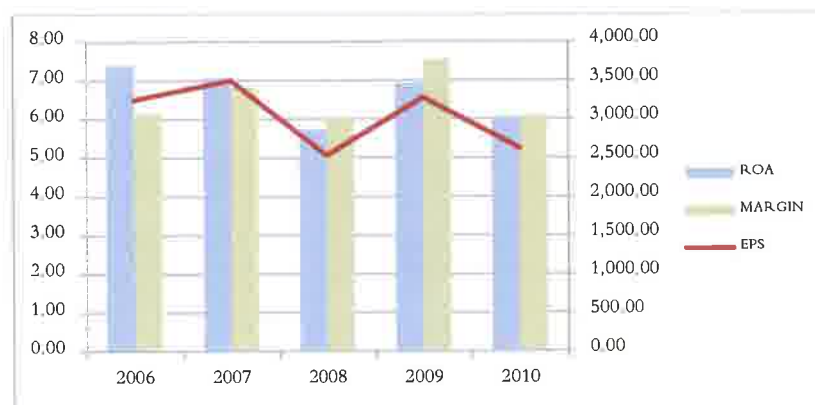
This section is going to present descriptive analysis of firm characteristics of firms employed in this study. As a result, there are important concepts in terms of firm characteristics such as firm performance and ownership structure. This section provides three separate sub sections in order to represent a better descriptive analysis of the important concepts along with other concepts in terms of firm characteristics.

#### **6.2.3.1. Firm Performance**

Firm performance is considered as the foremost factor which can show a CEO performance in managing his/her company. Regarding its important role, there are a variety of ways to measure performance which have been indicated in literature. In this study, the proxies for measuring firm performance are return on assets, earnings per share, and profit margin. Moreover, literature on CEO dismissal argues that CEOs are responsible for the firm performance in the previous year. Hence, the previous values of these proxies are also calculated. Besides, those accounting-based measures are adjusted by industry's median value. Consequently, the data of this study includes three values for each accounting-based measure, which are the values in running years (ROA, EPS, and MARGIN), the value in previous year ( $ROA_{t-1}$ ,  $EPS_{t-1}$ , and  $MARGIN_{t-1}$ ), and the adjusted value performance of both current and previous year (ADJROA, ADJEPS, and ADJMARGIN). Along with those ratios, the average values of both current and

previous years of firm performance (AEPS, AROA, and AMARGIN) are taken into the descriptive analysis. Even though the values of those accounting-based measures in current years and previous years are not implied in the regression analysis, the section is going to present descriptive analysis including all of the values in order to provide a general picture of firm performance from employed firms in this study.

**Figure 6-3: Firm performance computed by ROA, MARGIN and EPS**

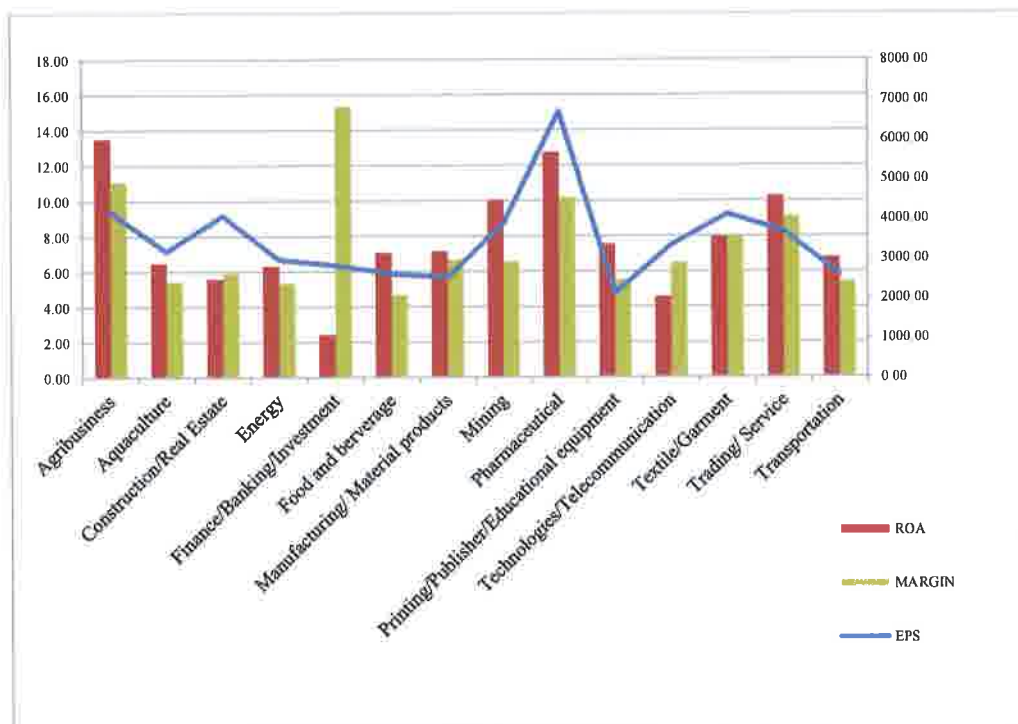


In order to compare the firm performance of employed firms in the research sample, this study implies median value of each ratio. In the Figure 6-3, firm performance is computed by ROA, MARGIN and EPS. The figure shows that the highest firm performance of Vietnamese-listed firms is in 2006 following ROA ratio (7.38%), whereas their performance reached the highest value in 2009 following MARGIN ratio (7.54%). Besides, the performance of Vietnamese-listed firms is reported by similar results in 2007 and 2010 by those ratios. In comparing those ratios, the highest firm performance computed by EPS was in 2008, 3,500 VND per share. On the other hand, all of three ratios present the lowest performance in 2008. It leads to the assumption that there might be a higher number of firms in which CEO turnover occurred, when the firms' CEOs have to respond to their firm performance in year 2008. Indeed, the descriptive analysis of CEO turnover has revealed that there were higher turnovers in 2008 and 2009. It can be explained that a CEO who was responsible for firm performance in 2008 could be replaced in 2008 or later in 2009.

In following differences among industries, this study observed the performance of employed firms in a classification of industries in which the employed firms are

operating. Following measurement of ROA, firm performance in agribusiness and pharmaceutical sectors is the highest, whereas firms in financial and banking sector have the lowest ROA. Along with the financial and banking sector, the performance of firms in technology and telecommunication is the second lowest with ROA equalling 4.2%. Besides, there are similar ROAs in firms in manufacturing, educational equipment, food and beverage, textile and garment, and transportation sectors. The ROA values of those sectors are around 8%. Meanwhile, ROAs of trading and services, and mining sectors are equal at 10%.

Figure 6-4: Firm performance by industries



Based on the Figure 6-4, it shows that EPS-based performance of firms in different sectors seems to be the same as the differences found under ROA ratios. Particularly, the pharmaceutical sector has the highest median value of EPS which is over 6,500 VND per share, whereas the same ratio of financial and banking sector is in the lowest groups with 3,000 VND per share. Meanwhile, other sectors have similar EPS ratios within the range of 2,500 to 4,000 VND per share.

On the other hand, the differences of firm performance among industries in applying a profit margin (MARGIN) differed from ROA and EPS ratios. For instance, the highest profit margin is found in the financial and banking sector, although its ROA is the smallest. It can be understood that firms in the financial and banking sector normally have a larger total of assets than other sectors and therefore it leads to smaller value in ROA ratio.

**Table 6-3: Descriptive Statistics of Firm Performance**

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
EPS	780	-19038.32	25563	3709.1045	3875.94225	15022928.33
EPS <sub>t-1</sub>	780	-19038.32	98991	3849.6665	5223.05565	27280310.35
ADJEPS	780	-147.11	151.83	5.2491	47.97488	2301.589
AEPS	780	-88.73	183.11	5.9521	41.42921	1716.379
ROA	780	-44.11	50.1	7.6616	8.27373	68.455
ROA <sub>t-1</sub>	780	-44.11	50.1	7.9343	8.13829	66.232
ADJROA	780	-7.15	6.56	0.1486	2.24834	5.055
AROA	780	-5.78	5.51	0.1792	1.92594	3.709
MARGIN	780	-469.59	190.55	8.6531	27.92155	779.613
MARGIN <sub>t-1</sub>	780	-277.82	155.94	9.3548	19.81301	392.555
ADJMARGIN	780	-21.79	13.59	0.4148	3.08509	9.518
AMARGIN	780	-13.43	12.93	0.4367	2.65789	7.064
Valid N (listwise)	780					

Regarding the observation above, it is necessary to employ a statistical analysis in order to reveal a better understanding on firm performance in the research sample. Indeed, a descriptive analysis which provides minimum and maximum, mean and standard deviation is able to present a statistical insight of firm performance. Indeed, descriptive analysis shows that minimum values of EPS and EPS<sub>t-1</sub> are equal to -19038.32, by observing on ratios relating to earning per share on Table 6-3. However, the maximum values of those ratios are quite different. Particularly, maximum value of EPS, 25563, is smaller than EPS<sub>t-1</sub>'s value, 98991. Moreover, the standard deviation and variation of the two ratios reveal that performance of firm following the ratios are huge dispersion. Indeed, differences among employed firms regarding the number of common stock on market and the net income after taxes have created the dispersion. Therefore, industry adjustment values have been computed. From Table 6-3, all values belonging to

ADJEPS are smaller than EPS and  $EPS_{t-1}$ . The dispersion among employed firms is reduced, which is presented by the values of standard deviation, 47.97488. The reduction also can be seen in comparing between AEPS to EPS and  $EPS_{t-1}$ .

Table 6-3 also shows that either minimum or maximum of ROA and  $ROA_{t-1}$  values are equal, -44.11% and 50.1%. Besides, the differences between mean, standard deviation and variance of ROA and  $ROA_{t-1}$  are small. For instance, mean values of those ratios are 7.6616 and 7.9343. In comparing those ratios, the value of return on assets adjusted by the industry's media value provides smaller values than unadjusted values. Minimum value of ADJROA is -7.15% and maximum value is 6.57%. It is believed that ADJROA values are better to represent the firm performance after making the industry adjustment which reduces the outside influences. As showing in Table 6-3, the standard deviation and variance of ADJROA are smaller than the values of ROA and  $ROA_{t-1}$ , 2.24834 and 5.055. Furthermore, the values belonging to AROA are the smallest. They represent the smallest degree of dispersion among firms across industries. Its variance is 3.709 and standard deviation is 1.92594.

Together with those ratios above, descriptive analysis of profit margin values are presented. It shows differences between MARGIN and  $MARGIN_{t-1}$  ratios. Especially, there is a larger dispersion in the performance of observed firms in this study following the measure of MARGIN ratio. The dispersion is revealed by the standard deviation, 27.92155, which is far from the mean value, 8.6531. Similar to MARGIN ratio, firm performance computed by  $MARGIN_{t-1}$  disperses among observed firms in the research sample. The variance value of  $MARGIN_{t-1}$  which is 779.613 presents a large distance from the maximum value to minimum values of firm performance computed by the ratio. Meanwhile, adjusted and average values of profit margin ratios, ADJMARGIN and AMARGIN, are smaller and have smaller dispersion than unadjusted values. The differences between adjusted values of firm performance computed by return on assets and profit margin's ratios, and other values are presented clearly by the Figure 6-5 and Figure 6-6 below.

Figure 6-5: Comparing firm performance based on return on assets' ratios

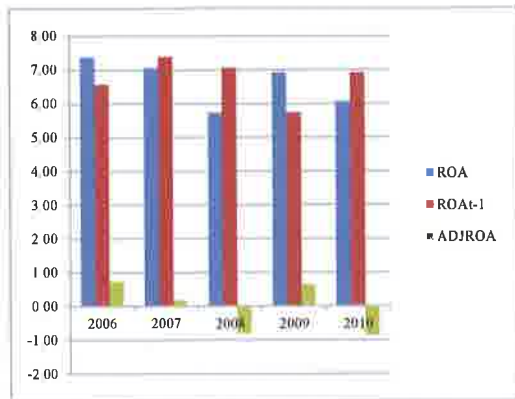
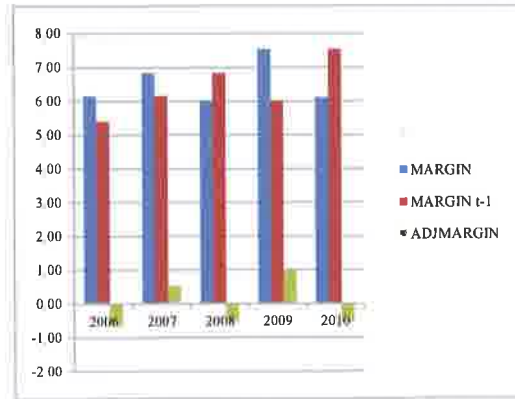
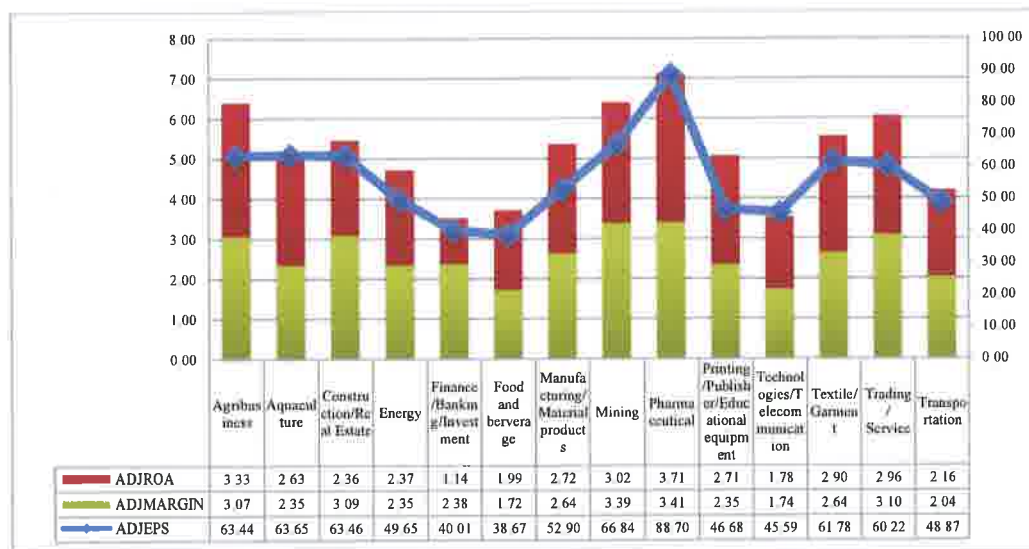


Figure 6-6: Comparing firm performance based on profit margin's ratios



Consequently, it can be understood that firms operating in different industries are able to create the dispersion among the research sample. Therefore, implementation of industry-adjusted ratios is likely to provide a better relative measure of performance than unadjusted ratios.

Figure 6-7: Adjusted firm performance by industries



As shown in Figure 6-7, firm performance in industries are less dispersive and more relativity. Besides, all measures seem to present relative and similar variances between industries. For example, the pharmaceutical sector is defined as the sector having the

highest performance by all ratios. Its ADJROA and ADJMARGIN are 3.71 and 3.41, whereas its EPS is 88.70. Those figures might account for non-turnover occurring in the sector during the observed period. Similar to that sector, agribusiness, aquaculture, and the trading and service sector are sectors which have experienced only 1 CEO replacement in the observed period and had better performance than other sectors such as food and beverage, textile and garment, and transportation.

### 6.2.3.2. Ownership Structure

As defined in Chapter Five, ownership structure's variables in this study include state shareholding, non-state institutions and companies' shareholding, and individual shareholding. Moreover, those types of shareholdings are measured by dummy variables which indicate whether a firm has at least one of the three types of ownership holding 20% threshold of firm's share. Based on the collected data from Vietnamese-listed firms, descriptive analysis presents that there are 63.5% of employed firms in the research sample which have the presence of state shareholding as a large shareholder by holding 20% threshold of firm shares. Meanwhile, the proportion of large shareholders, which are non-state institutions and companies, is 16.2 %. Besides, the proportion of large individual shareholding in employed firms is very small, 3.1% (Table 6-4).

**Table 6-4: Frequencies Table for Ownership structure**

		STATE		INST		INDV	
		Frequency	Percent	Frequency	Percent	Frequency	Percent
<b>Valid</b>	<20% threshold	285	36.5	654	83.8	756	96.9
	>=20% threshold	495	63.5	126	16.2	24	3.1
Total		780	100.0	780	100.0	780	100.0

Based on the frequencies of ownership's variables, it reveals that state shareholding is still the largest type of ownership in listed firms in Vietnam, whereas the percentage of an individual shareholder holding 20% threshold of firm's shares still is small in comparison to state shareholding. In addition, the presence of non-state institutions and companies as large shareholders in Vietnamese-listed firms is in a minority, because the development of non-state enterprises is smaller than state enterprises.



In order to gain a better understanding on ownership structure of employed firms in the research sample, this section descriptively analyses other concepts in terms of ownership such as the level of ownership concentration, and the proportion of shareholding belonging to the five largest shareholders.

**Table 6-5: Descriptive Statistics of Ownership variables**

	N	Minimum	Maximum	Mean	Std. Deviation
CONC	780	.00	.72	.1826	.14115
1st shareholder	780	.00	85.00	37.0442	18.48115
2nd Shareholder	780	.00	38.92	5.6671	7.05901
3rd Shareholder	780	.00	21.89	2.3008	3.93062
4th Shareholder	780	.00	12.81	.9944	2.57206
5th Shareholder	780	.00	10.30	.3482	1.55082

According to the result of the descriptive analysis represented on Table 6-5, it indicates that the level of ownership concentration in observed firms is moderate concentration. As a result, the mean value of ownership concentration is 0.183 which is within the range from 0.15 to 0.25<sup>4</sup>. However, there is uneven distribution among Vietnamese-listed firms, because the standard deviation is large, 0.13816. It reveals that there are firms in which the level of ownership dispersion is very high, whereas other firms are highly concentrated in ownership. Those are presented via the minimum and maximum of CONC variable which are 0.00 and 0.72.

**Table 6-6: Descriptive analysis of ownership concentration**

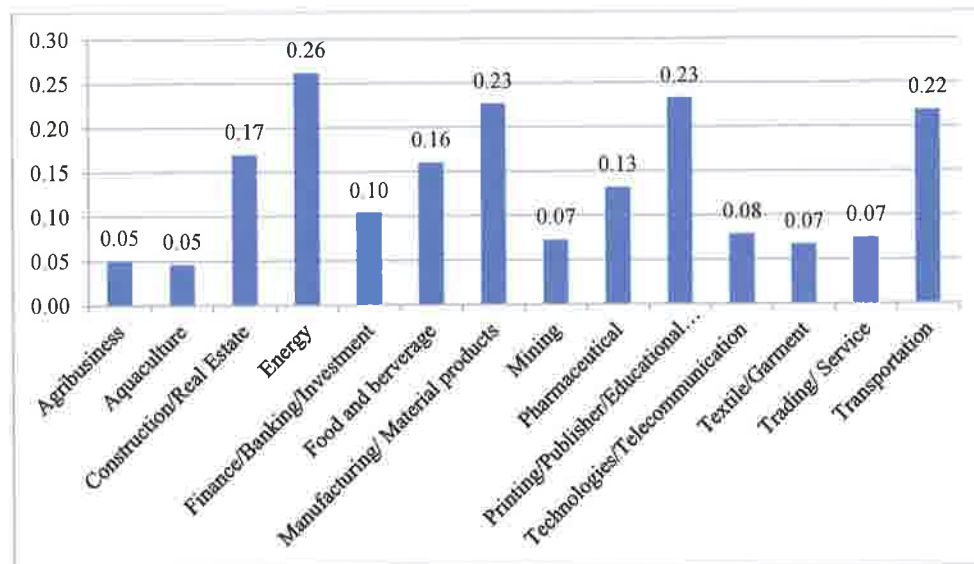
Presence of large shareholder	Mean	Median	Number of firms
STATE	0.22	0.26	495
INST	0.23	0.17	126
INDV	0.19	0.13	24
No 20% threshold Shareholder	0.03	0.02	171
STATE and INST	0.26	0.29	25
INST and INDV	0.24	0.15	11

Furthermore, Table 6-6 leads to an observation that firms which have the presence of large state shareholding have the highest level of ownership concentration. Together,

<sup>4</sup> See Curry and George (1983); Dahya et al. (1998); and Renneboog (2000) for a discussion on concentration level.

firms in which there are presences of non-state institutions and companies as large shareholders have moderate concentration in ownership. Besides, the level of ownership concentration in firms which have presences of large individual shareholder is more dispersed. On the other hand, the lowest level of concentration in ownership is found in firms which have no shareholder holding 20% threshold of firm shares (mean 0.03; median 0.02). Along with those observations, there are 25 firms in which shareholders holding 20% threshold firm shares include both state and non-state institutions shareholders. In this type of firm, the mean and median values of CONC variable are 0.26 and 0.29 which indicates high concentration in ownership. Meanwhile, in firms in which the large shareholders are non-state institutions, companies and individuals have moderate concentrated ownership (mean 0.24; median 0.15). Especially, there is no firm in which either state or individual was the majority shareholding.

**Figure 6-8: Ownership concentration of industries**

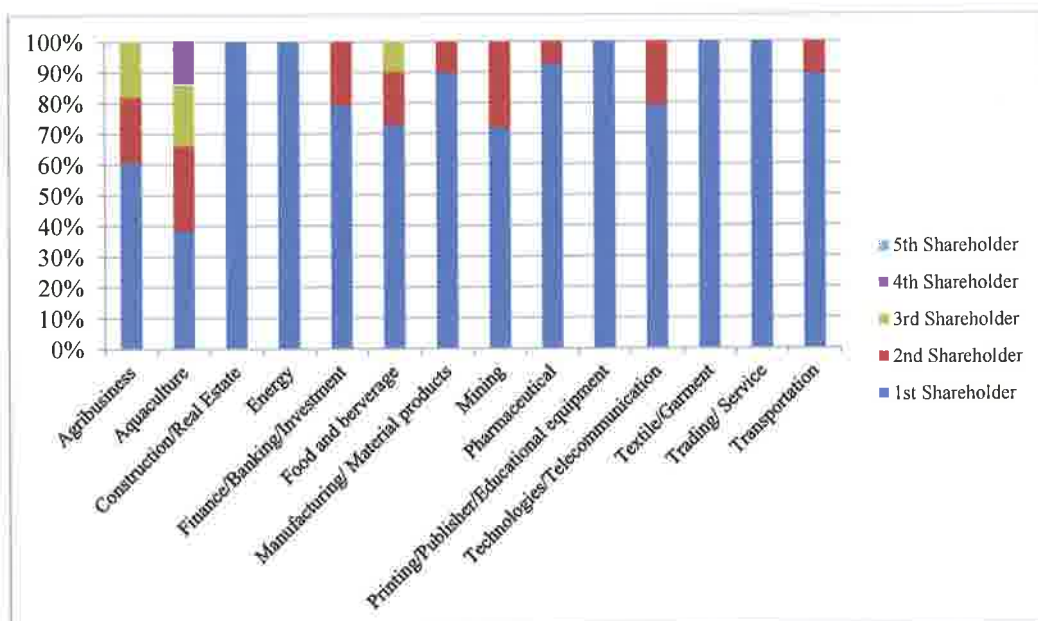


In considering the level of ownership concentration based on the industries of employed firms in this study, it shows that firms in agribusiness, aquaculture, financial and banking, mining, technologies and telecommunication, textile and garment, and trading and service sectors have the lowest level of concentrated ownership (Figure 6-8). The median values of those sectors are below 0.10. On the other hand, the ownership concentration in construction, manufacturing, educational equipment and transportation

is moderate concentration (median values within the range of 0.15-0.25). Among the industries in this study, firms which operate in the energy sector have the highest concentration level, 0.26. The reason for this is that most firms in energy sector are SOEs.

Together with ownership concentration, descriptive analysis in this section also provides an analysis on the five largest shareholders. Indeed, the five largest shareholders are defined based on the information of blockshareholders holding 5% threshold of firm shares. In the Table 6-6 above, the largest proportion of shareholding which belongs to the first largest shareholder is 85% and the biggest percentage of shares belonging to the fifth largest shareholder is 12.58%. Besides, the mean value of shareholding percentage owned by the first largest shareholder is 36.66%, whereas the mean value of shareholding percentage belonging to the fifth largest shareholder is around 0.35%. Moreover, the mean values of the second and the third largest shareholders are around 5.57 and 2.31. Based on the mean value of the largest shareholders, it reveals that the largest proportion of shares in Vietnamese-listed firms is normally concentrated on only one large shareholder. Actually, it can be seen clearly in presenting the five largest shareholders in different industries (Figure 6-9).

**Figure 6-9: The five largest shareholders in industries**



Based on the Figure 6-9, the first largest shareholder holds almost the majority of firm shares in most industries, excepting the agribusiness and aquaculture sectors. It also explains the differences in the level of ownership concentration between different industries.

### 6.2.3.3. Firm Size and Firm Leverage

In considering the leverage ratios of employed firms in this study, it shows that the ratios are small. The minimum value is 0.00 and the maximum value is only 0.67 (Table 6-8). In accordance to the book value of long-term debt, the minimum value of long-term debt in this study's sample is also zero. The maximum is 41,307.59 billion VND. The value is small in comparison to the maximum book value of total assets (total liabilities), 205,103 billion VND. Hence, it can be seen that the debts in Vietnamese-listed firms are controlled at a low level of leverage ratios.

**Table 6-7: Descriptive Statistics of Firm size and Firm Leverage**

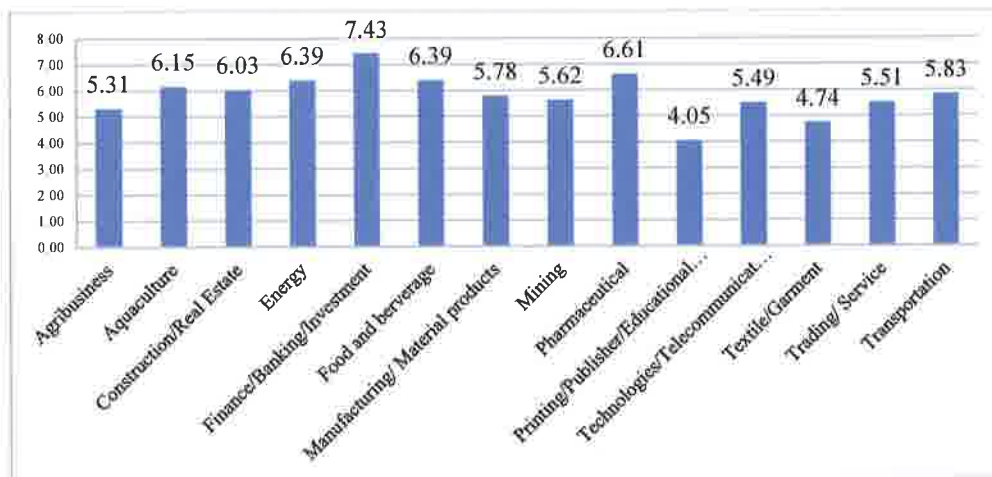
	N	Minimum	Maximum	Mean	Std. Deviation
FSIZE	780	2.78	12.23	5.8163	1.46142
FLEVERAGE	780	.00	.67	.1054	.13931
Total of Assets	780	16.12	205103.00	2060.3459	13060.12762
Long-term Debt	780	.00	41307.59	263.4255	2045.14501
Valid N (listwise)	780				

Regarding the sizes of Vietnamese-listed firms, descriptive statistics reveal that there is a large distance between the biggest and the smallest sizes. It is presented by the maximum and minimum value of FSIZE variable, 12.23 and 2.78. In following the book value of total assets, maximum value is 205,103 billion VND and minimum value is just 16.12 billion VND.

In particular, the size of firms in educational equipment, and textiles and garment sectors are the smallest, whereas the size of firms in financial and banking sector is the biggest (Figure 6-10). Besides, firms which operate in industries such as aquaculture, energy, construction and real estate, food and beverage have similar sizes, within the range of from 6.03 to 6.61. Meanwhile, the size of firms in agribusiness, manufacturing,

mining, technologies and telecommunication, trading and service, and transportation sectors is medium in comparison to other sectors. As a result, their median values of firm sizes are around 5.48 which are close to the mean value of FSIZE variable in this study, 5.8163 (Table 6-7).

**Figure 6-10: Size of firms in different industries**



#### 6.2.4. Board Characteristics

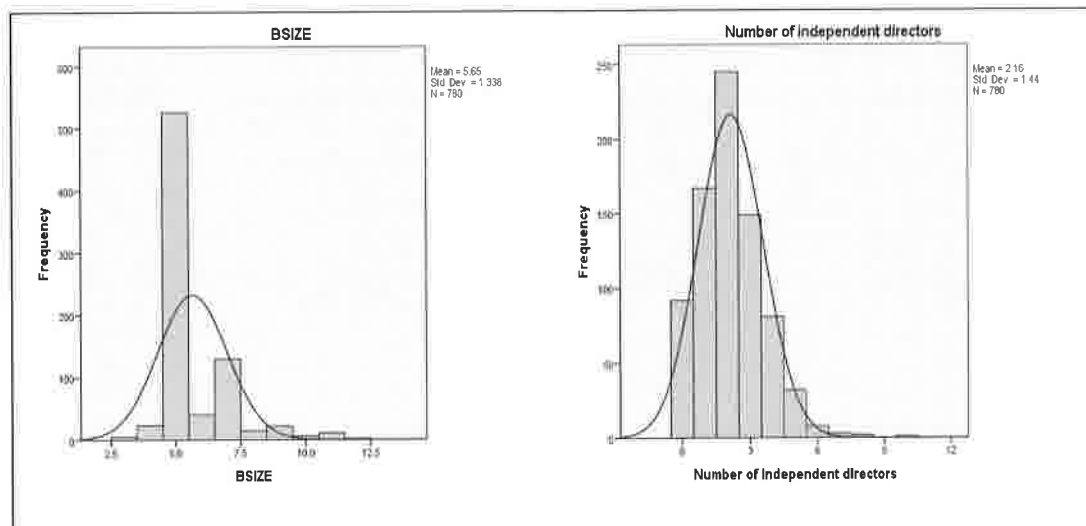
In terms of board characteristics, this study considers the two important concepts which are the number of directors on Board of Management (BOM) and the percentage of independent directors on BOM. The descriptive statistics for board characteristics presented on Table 6-8 shows that the maximum number of independent directors on BOM is 10 and the minimum is zero. Besides, the average number of independent directors on BOM is two, which is indicated by its mean value, 2.16.

**Table 6-8: Descriptive Statistics of Board Characteristics**

	N	Minimu m	Maximum	Mean	Std. Deviation	Variance
Number of independent directors	780	0	10	2.16	1.440	2.074
BFSIZE	780	3	12	5.65	1.338	1.791
OUTSIDER	780	.00	1.00	0.3832	0.23374	0.546342
Valid N (listwise)	780					

In addition, Table 6-8 presents that the average size of BOM is around 5 to 6 directors, because the mean value of BSIZE variable is demonstrated as equal to 5.65. Moreover, the minimum size of BOM in Vietnamese-listed firms is 3 directors. Additionally, the number of directors on BOM reaches to the maximum with 12 members. Based on the statistics, it shows that the size of Vietnamese-listed firms is smaller than listed firms in the U.K (Coles et al., 2008; Dimopoulos and Wagne, 2010), U.S (Jensen, 1993; Hwang and Kim, 2009; Fahlenbrach et al., 2010), Germany (Dimopoulos and Wagne, 2010) and in China (Kato and Long, 2006a, b). In considering the percentage of independent directors on board, the descriptive statistics indicate that the mean value is 0.3832 which means the average percentage of independent directors on board is 38.32%. However, the histogram of OUTSIDER variable in Figure 6-11 shows that the highest frequency of the percentage of independent directors in Vietnamese-listed firms is 2.16 equalling to 0.40 under the statistics of OUTSIDER variable. Besides, the highest frequency of the number of directors on the BOM is 5 members. Those statistics reveal that a Vietnamese-listed firm's BOM includes normally 5 members, and nearly 40% of members are independent directors.

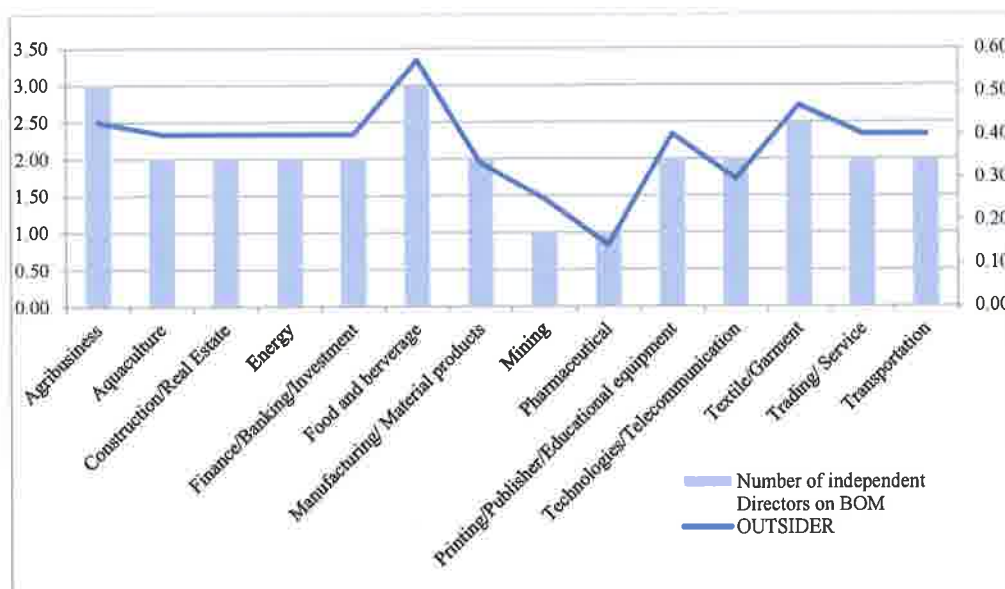
**Figure 6-11: Histogram of Board Characteristics' variables**



Furthermore, among employed firms in this study, firms in agribusiness and food and beverage sectors are reported to have the highest number of independent directors on their BOM. Meanwhile, the BOMs of mining and pharmaceutical sectors normally

include only 1 independent director. Together, other sectors normally appoint 2 independent directors on their BOM. However, it is arguable that the numbers of independent directors are unable to show the percentage of outsiders on BOM because of the differences of board size. Regarding this fact, Figure 6-12 shows that the food and beverage sector has the highest percentage of outsiders on board with the median value equalling 0.58. Besides, the percentage of independent directors on the board of a firm in agribusiness is 0.42, although it has normally 3 independent directors on board. Along with those sectors, the percentage of independent directors on firm's BOM in textile and garment is 0.45 even though there are frequently 2 independent directors. Meanwhile, mining and pharmaceutical sectors have the lowest proportion of outsiders on their BOMs, under 0.28. The rest of employed firms in other sectors such as aquaculture, construction, energy sectors, etc., have the proportions of outsiders at around 0.40.

**Figure 6-12: Number of independent directors in industries**



With regard to the differences in defining independent directors, it seems inappropriate to compare the percentage of outsiders on board in Vietnamese-listed firms with listed firms in other countries. However, it is generally understood that the percentage of independent directors on a board is normal.

### 6.2.5. CEO Characteristics

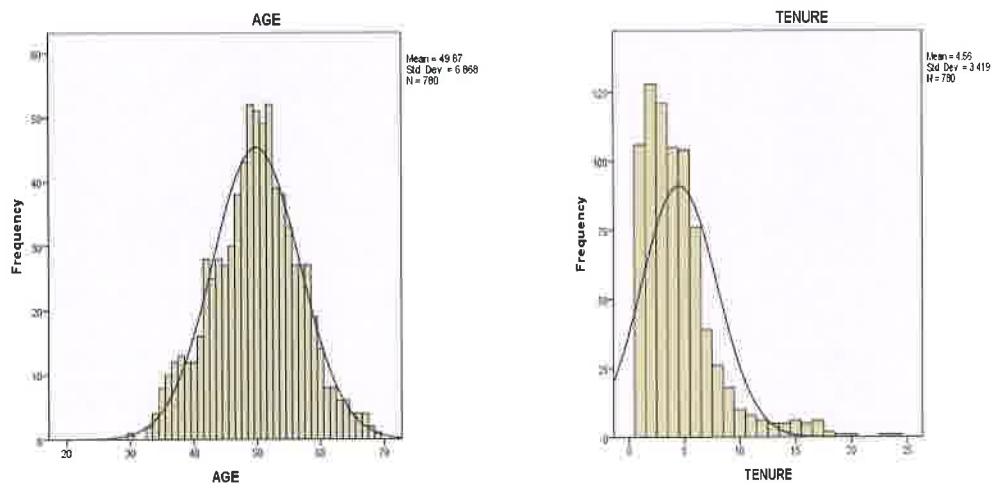
As mentioned in Chapter Five, there are four variables designed in terms of CEO characteristics, which are CEO age (AGE), CEO tenure (TENURE), CEO ownership (CEOWN) and CEO duality (DUALITY). Among these four variables, AGE and TENURE are continuous variables, whereas CEOWN and DUALITY are dummy variables.

**Table 6-9: Descriptive Statistics of CEO characteristics**

	N	Minimum	Maximum	Mean	Std. Deviation
AGE	780	30	69	49.87	6.868
TENURE	780	1	24	4.56	3.419

In considering the ages of CEOs in Vietnamese-listed firms, descriptive statistics report that the youngest CEO is 30 years old, whereas the oldest CEO is 69 years old. Besides, the mean value of AGE variable is 49.87, which represents that the average age of CEOs in Vietnamese-listed firms is 50 years old. It is also shown via the histogram of CEO's age in Figure 6-13.

**Figure 6-13: Histogram of CEO's Age and Tenure**



Compared to other studies in other countries, CEOs in Vietnamese enterprises are younger than CEOs in the U.K (Coles et al. 2008) and the U.S (Bhagat and Bolton,



2008; Brookman and Thistle, 2009). Meanwhile, it is found similar to the ages of CEOs in China according to the report of Liao et al. (2009), but is older than the figure from the study of Chi and Wang (2009).

Along with the CEO age, the average tenure of CEOs in Vietnamese-listed firm is 4.56 years. Especially, there is a firm in which its CEO has been in the position for 24 years. However, this happens infrequently overall in the observed firms. As a result, descriptive statistics reports the frequency of CEO having 24 years of tenure is only 0.1%. In addition, the percentage of CEOs having tenure over 11 years is statistically indicated at 5%. Meanwhile, CEO tenure within the range 1-5 years is reported with 72.3%. It is confirmed the mean value of TENURE variable is 4.56. Also, it reflects the normal tenure in Vietnamese enterprises is 5 years. Therefore, it can be seen that CEO tenure of CEOs in Vietnamese firms seems longer than Chinese CEOs according the reports of Kato and Long (2006a), and You and Du (2012), whereas it is shorter in accordance to the study of Chi and Wang (2009). Compared to other countries, it shows that the average tenure of a Vietnamese CEO is shorter than the U.K (Coles et al. 2008) and the U.S (Hwang and Kim, 2009; Brookman and Thistle, 2009).

**Table 6-10: Frequency statistics of CEO Duality**

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	CEO is not chairman	508	65.1	65.1	65.1
	CEO is Chairman	272	34.9	34.9	100.0
	Total	780	100.0	100.0	

Regarding the duality of CEO which it is argued reflects the power of CEO on the board of directors, descriptive statistics show that 34.9% of CEOs in this study's sample are also chairmen of their firms. This figure is smaller in compared to the study of Bhagat and Bolton (2008) which reported that 77.56% of CEOs holds chair position. In other words, the percentages of CEO duality which are reported in the studies of Kato and Long (2006a), Chang and Wong (2009) , and Chi and Wang (2009) are smaller than in Vietnamese firms. These differences are the results of differences in sample size. The compared studies have generally large size of sample than this study and it, therefore,

might affect the mean value of CEO duality in their studies. Overall, it can be seen that the duality in Vietnam is modestly high. As a result, CEO and chair position are normally one person in a firm having a majority of shareholding belonging to one shareholder such as SOEs or private enterprises.

**Table 6-11: Frequency statistics of CEO Ownership**

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	CEO owns <5% threshold	656	84.1	84.1	84.1
	CEO owns >=5% threshold	124	15.9	15.9	100.0
<b>Total</b>		<b>780</b>	<b>100.0</b>	<b>100.0</b>	

Together with CEO characteristics' variables above, CEO ownership is the last one to be considered. In particular, the percentage of CEOs holding 5% threshold of shares in Vietnamese-listed firms is small, 15.9%. Also, this figure shows that CEOs in Vietnamese firms normally hold under 5% threshold of firm shares. The fact is that in Vietnam CEOs have less chance to get firm shares. As a result, the private economic sector is still young and therefore CEOs who are holding more than 5% of firm shares are normally founders. Meanwhile, CEOs in SOEs have less ability to purchase firm shares than others in private enterprises, even though they could buy their firm shares with favoured prices. This is also a common occurrence which is found in other studies in different countries such as China, the U.K or the U.S. For example, Bhagat and Bolton (2008) reported that CEOs in U.S firms are holding around 2.92% of firm shares in average, whereas, Coles et al. (2008) provided that the percentage of shares owned by CEOs in UK firms are around 1.85%.

### 6.3. CORRELATION ANALYSIS

In order to examine the correlation between variables, this section is designed to perform and to present the Pearson correlation test of variables in this study. In fact, not all of correlations between variables in this study are examined and presented. Particularly, the correlation between variables which are most concerned is the relationship between other variables to the dependent variable, CEO turnover.

Furthermore, correlations CEO characteristics and other variables are considered in order to gain a better understanding of CEO characteristics in different types of listed firms. Besides, the correlations to firm performance of ownership structure's variables, board and CEO characteristics' variables are examined.

### 6.3.1. Correlations between CEO turnover and other variables

As mentioned in Chapter Five, this study has designed two groups for measuring firm performance. Hence, both of these groups will be examined by the Pearson correlation tests in order to distinguish their correlations with the dependent variable, CEO turnover, in this study. In particular, the first group measuring firm performance of Vietnamese-listed enterprises includes industry-adjusted values of earnings per share (ADJEPS), return on assets (ADJROA), and profit margin (ADJMARGIN). Based on the Pearson correlation test, it reveals that ADJEPS has a negative significant correlation to CEO turnover,  $r=-0.143$ ,  $p<0.001$ . Similarly, firm performance measured by ADJROA has a significant negative relationship with CEO replacements,  $r=-0.140$ ,  $p<0.001$ . In contrast, ADJMARGIN has an inverse relationship with CEO turnover. However, this relationship is significant at 5% level. Together with the first group of firm performance, the second group includes industry-adjusted average values of earnings per share (AEPS), return on assets (AROA), and profit margin (AMARGIN). In fact, the similar direction as the first group of measures is also found. In particular, AEPS and AROA are shown to have significant correlation to CEO turnover. These correlations are significant at 1% level. Meanwhile, the negative relationship between AMARGIN and CEO turnover is only significant at 5% level (Table 6-12).

**Table 6-12: Correlations between CEO turnover and firm performance**

	ADJEPS	ADJROA	ADJMARGIN	AEPS	AROA	AMARGIN
<b>CEO Turnover</b>	-.143**	-.140**	-.084*	-.099**	-.101**	-.071*
	(.000)	(.000)	(.020)	(.006)	(.005)	(.048)

Correlation is significant at \* the 0.05 level \*\* the 0.01 level (2-tailed).

P-value is in parentheses

Along with firm performance's proxies, ownership structure's variables, firm size and firm leverage are examined by the Pearson correlation test.

**Table 6-13: Correlations between CEO turnover and Ownership structure, Firm size and firm leverage**

	STATE	INST	INDV	CONC	FLEVERAGE	FSIZE
<b>CEO Turnover</b>	-.016	.075*	.007	-0.006	.036	.026
	(.665)	(.037)	(.848)	(0.860)	(.320)	(.462)

Correlation is significant at \* the 0.05 level \*\* the 0.01 level (2-tailed).  
P-value is in parentheses

According to the results of the Pearson correlation test (Table 6-13), the presence of state shareholding and ownership concentration reveal negative relationships with CEO replacement, but these relationships are insignificant,  $p > 0.1$ . In addition, the presence of large individual shareholder has an insignificant positive correlation to CEO turnover,  $p > 0.1$ . On the other hand, non-state institutions and companies are only one variable of ownership structure which has a significant correlation to CEO turnover. This correlation is positive to the percentage of CEO replacement at the 5% level. It leads to an initial observation that the presence of non-state institutions and companies may increase the probability of CEO turnover in Vietnamese-listed firms.

Along with correlation examination tests of firm characteristics to the percentage of CEO turnover, variables under CEO characteristics are also examined. In detail, CEO ownership and tenure of CEOs are found to have insignificant correlation to CEO turnover rate. The correlation tests' results of these variables represent  $r$  values being insignificant even at 10% level (Table 6-14). On the other hand, ages of CEOs are reported to have a significant positive correlation to CEO turnover. It explains that the rate of CEO replacement in firms having older CEO is higher than other firms in which CEOs are young. Besides, the CEO replacement rate is low in firms where CEOs are also chairmen. This observation is supported by the result of the correlation test between CEO duality and CEO turnover. Particularly, DUALITY variable has negative relationship with the rate of CEO turnover. This relationship is significant at 5% level with  $r = -0.74$ .

**Table 6-14: Correlations of Board and CEO characteristics to CEO turnover**

	<b>BSIZE</b>	<b>OUTSIDER</b>	<b>CEOWN</b>	<b>AGE</b>	<b>TENURE</b>	<b>DUALITY</b>
<b>CEO Turnover</b>	-.004	.118**	-.055	.101**	.048	-.074*
	(.912)	(.001)	(.123)	(.005)	(.184)	(.039)

Correlation is significant at \* the 0.05 level \*\* the 0.01 level (2-tailed).  
P-value is in parentheses

In examining the correlation of board characteristics and CEO turnover, the Pearson correlation tests' result indicate that size of board insignificantly correlates to CEO turnover rate ( $r=-0.004$ ,  $p>0.1$ ). It reveals that size of board seems not to have influence on the percentage of observed CEO replacements in this study's sample. Meanwhile, firms in which there are a greater percentage of outsiders on BOM have higher CEO turnover rate. As shown in Table 6-14, Pearson's result presents that the relationship between OUTSIDER and CEO turnover variables is significant at 1% level with  $r=0.118$ .

### 6.3.2. Firm performance and other variables

The foremost concern on the correlation between designed variables in this study and firm performance is how CEO ownership correlates to the CEO turnover rate. In fact, the CEOWN variable is measured as a dummy variable which is equal to 1 if CEO owns 5% threshold of firm shares and is equal to zero otherwise.

**Table 6-15: Correlations between firm performance and CEO characteristics**

	<b>ADJEPS</b>	<b>ADJROA</b>	<b>ADMARGIN</b>	<b>AEPS</b>	<b>AROA</b>	<b>AMARGIN</b>
<b>CEOWN</b>	.038	.005	-.019	.031	-.015	-.037
	(.285)	(.882)	(.603)	(.387)	(.686)	(.307)
<b>AGE</b>	.019	.010	-.014	.033	.020	-.011
	(.606)	(.771)	(.692)	(.358)	(.583)	(.757)
<b>TENURE</b>	-.007	-.020	.038	.019	-.010	.047
	(.849)	(.584)	(.291)	(.597)	(.784)	(.192)
<b>DUALITY</b>	-.028	.057	-.056	-.003	.070*	-.062
	(.439)	(.115)	(.121)	(.933)	(.050)	(.083)

Correlation is significant at \* the 0.05 level \*\* the 0.01 level (2-tailed).  
P-value is in parentheses

The correlation test result in Table 6-15 represents that CEO ownership insignificantly correlates to firm performance measured by either industry-adjusted profit margin (ADJMARGIN) or the average value of profit margin (AMARGIN). These correlations are reported to have negative influence. However, they are insignificant at level 10%.

Together with the proxies related to earnings per share, the correlations between CEO ownership and proxies of return on assets (ADJROA, AROA) and earnings per share (ADJEPS, AEPS) are insignificant at 10% level. Overall, the correlations of CEO ownership and firm performance are insignificant at 10 % level. The reason for this is that the proportion of shareholding belonging to a CEO in Vietnamese-listed firms is normally smaller than 5% and hence CEOs have less power and motivation to give their efforts to firm performance.

Along with CEO ownership, CEO age and tenure are also found to have insignificant relationship with firm performance measured by all proxies ( $p > 0.1$ ). Hence, the age of CEOs and the length of CEO position can indicate CEO experience, but seem not to present a significant relation with firm performance. Meanwhile, CEO duality is found to have a significant positive correlation to firm performance measured by AROA ( $r = 0.070$ ,  $p < 0.05$ ). However, this variable insignificantly correlates to other proxies of firm performance at 10% level.

In contrast, large non-state shareholding which includes non-state institutions and companies, and individual shareholdings are reported to have a negative relationship with firm performance. In particular, the presence of large shareholding of non-state institutions and companies has significant negative correlations to firm performance measured by all proxies at the 1% level. Meanwhile, large individual shareholders who hold 20% threshold negatively correlate to firm performance. These negative correlations are significant at the 1% level when firm performance is measured by ADJEPS, ADJROA and AEPS, whereas the correlation is significant at 5% following AROA proxy (Table 6-16). On the other hand, large individual ownership has insignificant relationship with firm performance measured by profit margin's proxies at the 5% level (ADJMARGIN,  $p > 0.05$ ; AMARGIN,  $p > 0.1$ ). Based on the outcome of those correlation tests, it can be seen that non-state shareholding seems to weaken firm

performance of listed enterprises. As a result, the private sector in the Vietnamese economy has been poorly developed, and it therefore has not enough experience and ability to manage firms.

**Table 6-16: Correlations of ownership structure to firm performance**

	ADJEPS	ADJROA	ADJMARGIN	AEPS	AROA	AMARGIN
STATE	.154** (.000)	.138** (.000)	.041 (.257)	.154** (.000)	.127** (.000)	.043 (.229)
INST	-.144** (.000)	-.134** (.000)	-.108** (.002)	-.158** (.000)	-.136** (.000)	-.119** (.001)
INDV	-.171** (.000)	-.112** (.002)	-.070 (.050)	-.167** (.000)	-.090* (.012)	-.056 (.121)

Correlation is significant at \* the 0.05 level \*\* the 0.01 level (2-tailed).  
P-value is in parentheses

In considering the correlation between ownership structure and firm performance, Table 6-16 shows that the presence of large state shareholding positively correlates to firm performance. The positive correlations are significant at 1% in measuring firm performance by earnings per share and return on assets' proxies (ADJEPS, ADJROA, AEPS and AROA). However, the correlations to firm performance measured by profit margin's proxies (ADJMARGIN and AMARGIN) are insignificant at the 10% level. The result exhibits that listed firms which have large state shareholding seem to pursue a better performance on controlling their assets and shares rather than increasing revenue.

In examining correlations between board characteristics and firm performance, Table 6-17 shows that board size has no significant correlations to all firm performance's proxies at the 5% level. However, board size is reported to have a negative relationship with firm performance measured by proxies of earnings per share at the 10% level. Along with board size, the percentage of outsider is reported as having an inverse result with board size. Correlation tests indicated that the percentage of outsider have strong correlations to firm performance computed by all proxies. Furthermore, these correlations are negative and significant at the 1% level following profit margin ratios. Meanwhile, correlations between the percentage of outsider and firm performance are significant and negative at the 1% level. Based on the result, it shows that independent

directors on BOM pay more attention to profit and loss ratios rather than earnings per share and return on assets' ratios. Hence, they have positive influence on firm performance measured by profit margin's proxies, and have negative effects on other proxies.

Regarding the differences in size of firms, the correlation of firm size to firm performance is examined. By applying the Pearson correlation test, the result shows significant positive correlations between firm size and firm performance measured by profit margin's proxies. These correlations are significant at the 1% level (see Table 6-17). Besides, firm size has a significant negative relationship with firm performance measured by AROA ( $r=-0.096$ ,  $p<0.01$ ). Also, a negative relationship between firm size and firm performance computed by ADJROA is found but it is only significant at the 5% level. On the other hand, firm performance measured by earnings per share's proxies and firm size have an insignificant relationship. In fact, size of firm in this study is measured by the natural logarithm of the book value of total assets and therefore the differences in size might not have effects on earnings per share which is relying on the amount of common stock in the market. In considering the negative relationship of firm size and return on assets' proxies, it can be understood that the increase of size have direct effect on the ratios, since the total of assets increases along with firm size.

**Table 6-17: Correlation between firm performance and other variables**

	ADJEPS	ADJROA	ADJMARGIN	AEPS	AROA	AMARGIN
<b>BSIZE</b>	-.066 (.066)	-.051 (.158)	-.002 (.960)	-.062 (.082)	-.040 (.270)	-.010 (.774)
<b>OUTSIDER</b>	-.180** (.000)	-.136** (.000)	.093** (.010)	-.181** (.000)	-.144** (.000)	.109** (.002)
<b>FIRM LEVERAGE</b>	-.069 (.056)	-.202** (.000)	.120** (.001)	-.093** (.010)	-.237** (.000)	.135** (.000)
<b>FIRM SIZE</b>	.025 (.491)	-.082* (.022)	.128** (.000)	.040 (.265)	-.096** (.007)	.147** (.000)

Correlation is significant at \* the 0.05 level \*\* the 0.01 level (2-tailed).

P-value is in parentheses

Together with firm size, firm leverage is reported to have significant positive correlation to firm performance measured by profit margin's proxies and strong negative correlation to return on assets' proxies. These correlations are significant at the 1% level



(see Table 6-17). Besides, firm leverage significantly correlates to AEPS ( $r=-0.093$ ,  $p<0.01$ ), whereas it insignificantly relates to ADJEPS ( $r=-0.069$ ,  $p>0.1$ ).

### 6.3.3. Correlations between CEO characteristics and other variables

In order to gain a better understanding about characteristics of CEOs in Vietnamese-listed firms, correlations between CEO characteristics and other variables such as state shareholding, non-state institutional shareholding, individual shareholding, board size and the percentage of outsiders on board are examined. In fact, the result of correlation tests presented in Table 6-18 provides statistics which help to indicate the correlations between those variables.

First of all, it is reported that CEOs in firms which have the presence of large state ownership seem to own a smaller proportion of shares than in other firms. As a result, correlation of large state shareholding to CEO ownership is significant negative,  $r=-0.202$ ,  $p<0.01$ . Similarly, the presence of large state ownership negatively correlates to tenure and duality of CEO. Those correlations are significant at the 1% level. Based on the results, it reveals that the tenures of CEOs in firms having a large state shareholding are shorter than in other firms. Besides, the frequency of CEO duality in firms having large state ownership is less than other firms. As a result, SOEs normally separate CEO and chairman positions to define the person who is the legal firm's representative. In contrast, the inverse situation is found in firms having large shareholding belonging to individuals. In particular, the number of CEO who owned 5% threshold increases along with the presence of large individual shareholding. The correlation tests show that CEO ownership significantly correlates to the presence of large individual ownership,  $r=0.288$ ,  $p<0.01$ . Together, the length in CEO position and the percentage of CEO holding chairman position in a firm where an individual owns 20% threshold is greater than in other firms. Meanwhile, both the presence of large state and individual shareholding positively correlate to the ages of CEOs.

In comparing the two types of ownerships, the presence of large non-state institutions and companies is reported to have insignificant relationship with CEO ownership and tenure. On the other hand, large non-state institutional shareholders are more likely to decrease the chance of CEO holding both CEO and chairman positions ( $r=-0.08$ ,

$p < 0.05$ ). Besides, firms in which non-state institutions and companies are large shareholders have younger CEOs. As a result, the correlation result presents that CEO age negatively correlates to the presence of large institutional shareholding,  $r = -0.081$ ,  $p < 0.05$ .

**Table 6-18: Correlation between CEO characteristics and other variables**

	CEOWN	AGE	TENURE	DUALITY
<b>STATE</b>	-.202**	.128**	-.165**	-.138**
	(.000)	(.000)	(.000)	(.000)
<b>INST</b>	.047	-.081*	-.006	-.080*
	(.187)	(.023)	(.866)	(.026)
<b>INDV</b>	.288**	.115**	.119**	.166**
	(.000)	(.001)	(.001)	(.000)
<b>BSIZE</b>	.008	-.031	.079*	.108**
	(.813)	(.384)	(.028)	(.002)
<b>OUTSIDER</b>	-.012	-.100**	-.074*	-.224**
	(.742)	(.005)	(.040)	(.000)

Correlation is significant at \* the 0.05 level \*\* the 0.01 level (2-tailed).  
P-value is in parentheses

In considering the correlation between board and CEO characteristics, the Pearson correlation test reported that board size has insignificant relations with either the rate of CEO owned 5% threshold or CEO age. Meanwhile, size of board positively relates to the length of CEO in position,  $r = 0.079$ ,  $p < 0.05$ . Moreover, the number of CEO holding chairman position is higher in firms which have a larger board size ( $r = 0.108$ ,  $p < 0.01$ ). On the other hand, the percentage of outsider is found to have negative correlation with CEO age, tenure and duality. Those correlations are significant at the 1% level excepting correlation of outsider to CEO tenure ( $p < 0.05$ ). The correlation between the percentage of outsider and the percentage of CEO holding 5% threshold is insignificant (Table 6-18). Consequently, it can be deduced that CEOs in firms having a higher percentage of outsider on board and a smaller size of board, the CEO has a shorter time in position and is younger than in other firms. Furthermore, CEO and chairman positions are more likely to be separated in this type of firm. However, board characteristics have no significant relationship with the presence of CEO holding 5% threshold of firm shares in Vietnamese-listed enterprises.

### 6.3.4. Correlations among ownership structure's variables

Along with the correlations between firm performance and other variables, the correlations among these ownership variables are estimated. In detail, there are strong inverse relationships of state ownership with both large shareholdings belonging to non-state institutions and companies ( $r=-0.398$ ,  $p<0.01$ ), and individuals ( $r=-0.235$ ,  $p<0.01$ ). These relationships represent the fact that in Vietnamese enterprises the private investors, including either institutional or individual investors, are less likely to become large shareholder of firms in which state shareholding is the majority. It also confirms the result found in descriptive analysis that a small number of observed firms have both state and non-state institutions as large shareholder and none of employed firms in this study's sample having state and individual shareholders holding 20% threshold.

**Table 6-19: Correlations among ownership structure variables**

	STATE	INST	INDV
STATE	1	-.398** (.000)	-.235** (.000)
INST	-.398** (.000)	1	.144** (.000)
INDV	-.235** (.000)	.144** (.000)	1

Correlation is significant at \* the 0.05 level \*\* the 0.01 level (2-tailed).  
P-value is in parentheses

In comparing the correlations between large state shareholding and other types of large shareholdings in the employed firms of this study, the correlation between large ownership held by non-state institutions and companies, and large individual ownership are positive significant,  $r=0.144$ ,  $p<0.01$ . It exhibits the fact of ownership structure in Vietnamese-listed firms that firm in which either individuals or non-state institutions and companies are large shareholders holding 20% threshold, have a higher rate of the presence of other non-state shareholders than in firms having large state ownership.

## 6.4. UNIVARIATE ANALYSIS

In fact, univariate analysis is undertaken in this section in order to provide initial assessments of the hypotheses of this study. In particular, CEO turnover is compared across a variety of subsamples based on the sample of this study. For example, firm performance is going to be divided in four quartiles for examining the differences between the level of firm performance and CEO replacement rate. Furthermore, the differences of CEO turnover rate are compared between firms having and without types of large shareholding, the percentage of outsider and CEO ownership. In order to do these examinations, t-statistics and z-statistics are performed.

### 6.4.1. CEO turnover and Firm Performance

In general, firm performance has been considered as the most important factor which reflects the effects of CEO and indicates the probability of replacement in CEO position. Hence, it is expected that the percentage of CEO replacement in firms which experience poor performance is higher than firms having a good performance. Regarding this expectation, data on firm performance in this study is divided into four quartiles as subsamples in order to compare CEO turnover rate in different levels of firm performance. To examine the differences, t-statistics and z-statistics are implemented to examine equality from the bottom quartile to the top quartile of firm performance.

As shown in Table 6-20, the results of t-statistics and z-statistics lead to an assessment that CEO turnover is significant higher for firms with poor ADJEPS, ADJROA, AEPS, and AROA. Meanwhile, both proxies of profit margin are reported that they insignificantly correlate with the differences in CEO turnover rate. The insignificant ADJMARGIN and AMARGIN imply that profit margin's proxies are not considered as a good reflection of CEO's ability. Since the level of expenditure and business operating are different among firms, the profit margin ratios are considered as a weak proxy for measuring CEO's ability. Meanwhile, the assessment that firm performance measured by return on assets' proxies increases the CEO turnover rate is supported by the studies of Denis and Denis (1995), Huson et al. (2001), Kato and Long (2006a, b) and Firth et al. (2006).

**Table 6-20: CEO turnover rate at different levels of firm performance**

	Firm performance proxies					
	ADJEPS	ADJROA	ADJMARGIN	AEPS	AROA	AMARGIN
The top quartile	0.0769	0.0825	0.0923	0.0872	0.0974	0.0821
The second quartile	0.0837	0.0942	0.0994	0.0872	0.0821	0.1333
The third quartile	0.0904	0.0854	0.1055	0.0923	0.0923	0.1025
The bottom quartile	0.2000	0.1897	0.1538	0.1846	0.1795	0.1333
Sample size	780	780	780	780	780	780
t-statistics	-3.621***	-2.996***	-1.840*	-2.829***	-2.399**	-1.237
z-statistics	4.463***	3.939***	2.131	3.664***	3.433***	1.923

t-statistic and z-statistic for equality between the top and bottom quartiles \* \*\*, and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels respectively.

Although t-statistics and z-statistics indicate the differences on CEO turnover rate between the bottom quartile and the top quartile, differences between the first three quartiles are small (see Table 6-20). For example, the CEO turnover rate of the top quartile is smaller than the second quartile, only 0.68%, and is smaller by 1.35% than the third quartile following firm performance measure of ADJEPS. Since the reasons for CEO replacements are excluded in this study, the small differences on CEO turnover rate among the first three quartiles are explained by the fact that CEOs having good performance are promoted or move to other companies.

#### 6.4.2. CEO turnover and Ownership Structure

In considering the relationship between ownership structure and CEO turnover rate based on the sample of this study, both t-statistics and z-statistics provide that there is no difference between having or without large state and individual shareholders. Meanwhile, the number of CEO replacements increases in firms where non-state institutions or companies hold 20% threshold of firm shares. However, the difference is significant at the 5% level by z-statistics and is moderately significant at the 10% level by t-statistics (Table 6-21). The results confirm the correlation tests above that the presence of large shareholders weakly influence CEO turnover.

**Table 6-21: CEO turnover rate and Ownership Structure**

	Ownership variables		
	STATE	INST	INDV
≥20% Threshold	0.1091	0.1667	0.1250
≤20% Threshold	0.1192	0.1024	0.1124
Sample size	780	780	780
t-statistics	0.428	-1.822*	-0.182
z-statistics	0.433	2.086**	0.192

t-statistic and z-statistic for equality between the top and bottom quartiles \*, \*\*, and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels respectively.

As the literature suggested, it is expected that the presence of large shareholders have effects on the link between firm performance and CEO turnover. Hence, this section applies z-statistics in order to examine the relationship between CEO turnover rate and ownership structure in different levels of firm performance. In fact, the rate of CEO replacement is defined for each quartile of firm performance in Table 6-22 and Table 6-23. Besides, the percentages of CEO turnover are separated between firms having or without the presence of each type of large shareholders. Moreover, Table 6-22 presents the results based on adjusted values of firm performance's proxies (ADJEPS, ADJROA, and ADJMARGIN), whereas Table 6-23 exhibits statistics results based on average proxies of firm performance (AEPS, AROA, and AMARGIN).

According to the statistical results on Table 6-22, there are differences between the top quartile and the bottom quartile in all employed firms following ADJEPS. Especially, there is no turnover at the first three quartiles in firms where an individual shareholder is a large shareholder. However, larger differences between the top quartile and the bottom quartile are found in firms which are without the presence of large state shareholder or with the presence of large shareholding belonging to non-state institutions or companies. Meanwhile, the CEO turnover rates among firms in the bottom quartile have small difference, whether individual shareholding is large or small. Along with those assessments, the differences between the top, the second and the third quartiles are found to be small.

In following the ADJMARGIN proxy, CEO turnover rates are increasing at the top of quartile in firms without large state shareholding, or having the presence of large non-

state shareholding (including institution, companies and individuals). Those differences are significant under z-statistics. Meanwhile, there are small differences between the levels of firm performance among other firms.

**Table 6-22: CEO turnover rate and Ownership structure at different levels of firm performance (adjusted values)**

Ownership structure's variables						
	STATE (0)	STATE (1)	INST (0)	INST (1)	INDV (0)	INDV (1)
<b>ADJEPS</b>						
1 <sup>st</sup> quartile	0.0847	0.0735	0.0760	0.0833	0.0769	0.000
2 <sup>nd</sup> quartile	0.0500	0.0992	0.0833	0.0869	0.0808	0.000
3 <sup>rd</sup> quartile	0.0724	0.1000	0.0872	0.1111	0.0938	0.000
4 <sup>th</sup> quartile	0.2165	0.1837	0.1748	0.2692	0.2010	0.2143
z-statistics	3.684***	2.760**	3.248**	2.606*	4.254***	1.564
Sample size	285	495	654	126	756	24
<b>ADJROA</b>						
1 <sup>st</sup> quartile	0.0938	0.0763	0.0824	0.0800	0.0829	0.000
2 <sup>nd</sup> quartile	0.0677	0.1060	0.0898	0.1250	0.0963	0.000
3 <sup>rd</sup> quartile	0.0625	0.1008	0.0828	0.1000	0.0885	0.000
4 <sup>th</sup> quartile	0.2317	0.1593	0.1621	0.2766	0.1848	0.2727
z-statistics	3.769***	2.115	2.735*	2.588*	3.595***	2.013
Sample size	285	495	654	126	756	24
<b>ADJMARGIN</b>						
1 <sup>st</sup> quartile	0.0882	0.0945	0.0924	0.0901	0.0947	0.000
2 <sup>nd</sup> quartile	0.1000	0.0991	0.0969	0.1071	0.1032	0.000
3 <sup>rd</sup> quartile	0.0606	0.1278	0.1091	0.0882	0.1077	0.000
4 <sup>th</sup> quartile	0.2099	0.1140	0.1111	0.3095	0.1444	0.375
z-statistics	3.060**	0.954	0.650	3.050**	1.646	2.619*
Sample size	285	495	654	126	756	24
*, **, and *** denote significance at 0.10, 0.05, and 0.01 levels respectively.						

Similar to ADJEPS proxy, CEO replacement rate differs in the top and bottom quartiles of ADJROA by the presence of large state shareholder. In particular, among firms without the presence of state shareholder, the bottom quartile firms have a higher CEO replacement percentage than firms in other quartiles. Meanwhile, the middle quartiles

are reported to have the smallest turnover rate. On the other hand, these differences in CEO turnover rate are found in firms having the presence of large state shareholding. However, the significance of the difference between quartiles is weak, over 10%. Together with the presence of large state shareholding, an inverse result is found in firms having the presence of large non-state institutional shareholding. The differences on CEO turnover rate are strengthened in firms having larger non-state institutional shareholding. However, CEO dismissal rate in the top three quartiles have small differences. This result is also shown in examining the differences by the presence of large individual shareholder. Nevertheless, the differences among firm performance quartiles are significant only in firms without the presence of large individual shareholding.

In the same designation as the firm performance measures by adjusted values above, the percentage of CEO dismissals is examined across different types of large shareholders and different levels of firm performance following measures based on average proxies. In particular, there are significant differences in CEO dismissal rate between firm performance's quartiles in firms without the presence of large shareholders in measuring firm performance by AEPS. Moreover, CEO turnover rate in the bottom quartile of firms having the presence of state shareholding is higher than other firms, whereas an inverse direction is found in firms having the presence of large shareholding belonging to shareholding. However, the differences are reported insignificant by z-statistics. Meanwhile, the same results as reported in adjusted proxies are found. It is reported that there are little differences among the middle quartiles.

In accordance to AROA's measurement, there are insignificant differences between firms under the influence of large state shareholding or individual shareholding, even though CEO turnover rate increased in the bottom quartile. However, the differences in the bottom quartile under the influence of an individual large shareholder are significant, whereas the results of state shareholding are insignificant at the 5% level following z-statistics. Besides, the result of z-statistics reveals that CEO dismissal rate is significantly different in firms without the presence of non-state institutional shareholding. In fact, the rate of CEO dismissal in the first quartile of firms having institutional ownership is similar, whereas the two bottom quartiles have little



difference in CEO dismissal rate. However, z-statistics of the differences is insignificant, although the different rate between the two top and the two bottom quartiles is double. Together with AROA proxy, z-statistics reports that there are insignificant different in CEO turnover rate in different levels of firm performance by AMARGIN and the presence of large state and institutional shareholders. A significant difference in CEO turnover rate is found in firms which an individual shareholder holds 20% threshold of firm shares.

**Table 6-23: CEO turnover rate and Ownership structure at different levels of firm performance (average values)**

Ownership structure's variables						
	STATE (0)	STATE (1)	INST (0)	INST (1)	INDV (0)	INDV (1)
<b>AEPS</b>						
1 <sup>st</sup> quartile	0.0714	0.0935	0.1028	0.0500	0.0872	0.0000
2 <sup>nd</sup> quartile	0.0781	0.0916	0.0814	0.1304	0.0885	0.0000
3 <sup>rd</sup> quartile	0.0800	0.1000	0.0859	0.1250	0.0957	0.0000
4 <sup>th</sup> quartile	0.2111	0.1619	0.1597	0.2550	0.1823	0.1250
z-statistics	3.252**	1.968	2.585*	2.332	3.425***	1.565
Sample size	285	495	654	126	756	24
<b>AROA</b>						
1 <sup>st</sup> quartile	0.1017	0.0956	0.0952	0.1111	0.0990	0.0000
2 <sup>nd</sup> quartile	0.0597	0.0938	0.0809	0.0909	0.0838	0.0000
3 <sup>rd</sup> quartile	0.1205	0.0714	0.0723	0.2067	0.0973	0.0000
4 <sup>th</sup> quartile	0.1842	0.1765	0.1701	0.2083	0.1702	0.4286
z-statistics	2.343	2.785*	3.149**	1.564	2.938**	2.886**
Sample size	285	495	654	126	756	24
<b>AMARGIN</b>						
1 <sup>st</sup> quartile	0.0794	0.0833	0.0805	0.0952	0.0851	0.0000
2 <sup>nd</sup> quartile	0.1408	0.1290	0.1317	0.1429	0.1368	0.0000
3 <sup>rd</sup> quartile	0.0685	0.1220	0.0994	0.1176	0.1058	0.0000
4 <sup>th</sup> quartile	0.1795	0.1026	0.0987	0.2558	0.1217	0.5000
z-statistics	2.399	1.304	1.585	1.983	1.669	3.207**
Sample size	285	495	654	126	756	24
*, **, and *** denote significance at 0.10, 0.05, and 0.01 levels respectively.						

Consequently, CEO replacement rate is reported to increase at the bottom level in all firms. However, the significance of those differences is affected by the presence of a large shareholder. Moreover, difference in CEO turnover rate is insignificant between the first three quartiles. This is the reason that the result of t-statistics and z-statistics for relationship between CEO turnover and the existence of large shareholders is only significant for firms having large non-state institutional ownership. Overall, it is expected that the influence of large shareholders on CEO turnover is clearer when firms experience poor performance.

Together with ownership type, the sample is divided into two groups in order to distinguish the differences between CEO turnover rate and ownership concentration. Indeed, firms having beyond 0.25 are considered as highly concentrated in ownership. Therefore, it is used to create the subsample by applying t-statistics and z-statistics. Also, this step is able to examine the difference in CEO replacement rate by ownership concentration in different levels of firm performance.

**Table 6-24: Ownership concentration and CEO turnover**

The level of ownership concentration		
	CEO Turnover	Sample size
<0.25	0.1152	460
≥0.25	0.1372	320
t-statistics	0.253	
z-statistics	0.064	
t-statistic and z-statistic for equality between the top and bottom quartiles *. **, and *** denote significance at 0.10, 0.05, and 0.01 levels respectively.		

By employing t-statistics and z-statistics, the results in Table 6-24 show that there are no differences in CEO turnover rate following the different levels of ownership concentration. Hence, it seems to show that ownership concentration has no relationship with the probability of CEO turnover. Besides, the z-statistics which examined CEO turnover rate and ownership concentration in different levels of firm performance reported insignificant differences between high and low concentrated ownership firms at

different levels of firm performance<sup>5</sup>. Thereby, it leads to an assessment that the differences among ownership concentration do not influence the CEO replacement rate following different quartiles of firm performance. In other words, ownership concentration has less effect on the relation of firm performance with CEO turnover rate.

### 6.4.3. CEO turnover and the percentage of outsider

After the correlation test of the relationship between the percentage of outsider on board and CEO turnover, z-statistics and t-statistics are implied in order to examine CEO turnover rates in different percentage of outsider on board. Indeed, a cutting point is set up in order to implement those tests. By using 0.40 as the cutting point, the result of t-statistics and z-statistics exhibit that CEO turnover rate in firms having the percentage of outsider under 0.40 are quite smaller than firms having the percentage of outsider over 0.40. Particularly, percentage of CEO dismissals in firms having the percentage of outsider over 0.40 is 13.91%, whereas the percentage is only 7.5% in firms having under 0.40. Moreover, the difference is significant at the 1% level for both statistics tests (Table 6-25).

**Table 6-25: The percentage of outsider and CEO turnover**

The percentage of Outsider	
	CEO Turnover
>=0.40	0.1391
<0.40	0.0750
Sample size	780
t-statistics	-3.427***
z-statistics	2.784***

t-statistic and z-statistic for equality between the top and bottom quartiles \*. \*\*, and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels respectively.

Furthermore, it is expected that the difference in the percentage of outsider is able to affect the CEO replacement rate in different levels of firm performance. Therefore, z-statistics are implemented in order to distinguish the relationship between CEO turnover

<sup>5</sup> See Table App-1 in Appendix

and the percentage of outsider in different levels of firm performance. In fact, Table 6-25 presents the z-statistics which provides a statistical result for the relationship. In fact, the percentage of CEO turnover increases in firms having the percentage of outsider beyond 0.40 by implementing all firm performance proxies. The statistics results are significant at the 5% level excepting firm performance measured by AMARGIN. The differences in CEO replacement rate between the top and the bottom quartiles are large. Besides, the percentage of CEO replacement in the top quartile is higher than the third quartile of firm performance. It leads to an assessment that firms having the percentage of outsider over 0.40 on board are more likely to dismiss the CEO than firms in the top quartile. Meanwhile, differences between the levels of firm performance in firms having the percentage of outsider under 0.40 are statistically insignificant.

**Table 6-26: CEO replacement and the percentage of outsider in different levels of firm performance**

	Firm performance proxies					
	ADJEPS	ADJROA	ADJMARGIN	AEPS	AROA	AMARGIN
<i>Panel A: OUTSIDER &gt;= 0.40</i>						
The top quartile	0.0495	0.0811	0.0963	0.0928	0.1226	0.0902
The second quartile	0.1262	0.1132	0.1078	0.0893	0.0847	0.1454
The third quartile	0.1000	0.1207	0.1308	0.1280	0.1296	0.1383
The bottom quartile	0.2619	0.2283	0.2414	0.2302	0.2109	0.1870
Sample size	460	460	460	460	460	460
z-statistics	4.943***	3.534***	3.156**	3.593***	2.957**	2.246
<i>Panel B: OUTSIDER &lt; 0.40</i>						
The top quartile	0.1064	0.0833	0.0833	0.0816	0.0674	0.0645
The second quartile	0.0341	0.0706	0.0899	0.0843	0.0779	0.1176
The third quartile	0.0725	0.0361	0.0761	0.0286	0.0460	0.0693
The bottom quartile	0.0869	0.1176	0.0506	0.1014	0.0920	0.0417
Sample size	320	320	320	320	320	320
z-statistics	1.899	1.923	1.011	1.743	1.745	1.878
z-statistic for equality between the top and bottom quartiles *, **, and *** denote significance at 0.10, 0.05, and 0.01 levels respectively.						

It is reported that CEO turnover rate is lowest in firms having the percentage of outsider under 0.40 at the bottom quartile of firm performance measured by profit margin's

proxies. Meanwhile, the lowest percentage of CEO replacement is found in the third quartile of firm performance measured by ADJROA, ADJMARGIN and AEPS when the percentage of outsider is under 0.40. Furthermore, the CEO dismissal rate at the bottom quartile of firm performance in firms having the percentage of outsider under 0.40 is lower than firms having the percentage above 0.40. Therefore, it is argued that the percentage of outsiders has a strong effect on the increase of CEO replacement rate.

#### **6.4.4. CEO turnover and CEO ownership**

Based on the correlation analysis in the prior section, CEO ownership is reported to have a statistically insignificant correlation to CEO turnover. Besides, it is implied in the Mann-Whitney test and z-statistics<sup>6</sup> which reported insignificant relations between the percentage of CEO turnover and either CEO holding over or less than 5% threshold of firm shares. Hence, it leads to an assessment that CEO ownership has less influence on CEO turnover.

On the other hand, it is expected that CEO ownership would have effects on the link between CEO turnover and firm performance. In order to examine this expectation, it is necessary to apply z-statistics in order to show the relation between CEO ownership and CEO replacement in different levels of firm performance. In fact, the result of z-statistics reveals that firm performance in the bottom quartile have higher CEO turnover rate than firms in the top three quartiles. In addition, the differences are significant at the 1% level following ADJEPS, ADJROA, AEPS, and AROA. Meanwhile the differences are statistically insignificant in measuring firm performance by profit margin's proxies. Furthermore, firms in which CEO owns less than 5% threshold of firm shares have a higher percentage of CEO turnover than firms which have a CEO owning 5% threshold of firm shares at the three bottom quartile level of firm performance.

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<sup>6</sup> See Table App-2 in Appendix

**Table 6-27: CEO turnover rate and CEO turnover in different levels of firm performance**

	Firm performance proxies					
	ADJEPS	ADJROA	ADJMARGIN	AEPS	AROA	AMARGIN
<i>Panel A: CEOWN (0)</i>						
The top quartile	0.0637	0.0864	0.0982	0.0802	0.0976	0.0864
The second quartile	0.0898	0.0903	0.0970	0.0920	0.0819	0.1337
The third quartile	0.0983	0.1012	0.1065	0.1047	0.1111	0.1091
The bottom quartile	0.2327	0.2063	0.1824	0.2075	0.1950	0.1529
Sample size	656	656	656	656	656	656
z-statistics	5.096***	3.860***	2.773*	3.938***	3.418***	1.953
<i>Panel B: CEO (1)</i>						
The top quartile	0.1316	0.0606	0.0625	0.1212	0.0968	0.0606
The second quartile	0.0417	0.1200	0.1154	0.0625	0.0833	0.1304
The third quartile	0.0384	0.0000	0.1000	0.0000	0.000	0.0667
The bottom quartile	0.0556	0.1143	0.0278	0.0833	0.1111	0.0526
Sample size	124	124	124	124	124	124
z-statistics	1.706	2.058	1.471	1.752	1.920	1.206
z-statistic for equality between the top and bottom quartiles *, **, and *** denote significance at 0.10, 0.05, and 0.01 levels respectively.						

Along with those results, the differences of CEO turnover rate in firms where CEOs hold 5% threshold of firm share are reported as insignificant. Moreover, the percentages of CEO replacement in the top quartile of firm performance measured by earning per shares' proxies are higher than other quartiles. Other quartiles have similar CEO replacement rates. It can be explained that CEOs would be promoted or move to other companies. Also, it is the reason for the same situation based on other firm performance's proxies in similar results. The results indicate that there are differences in the percentage of CEO replacement at different levels of firm performance in firms where CEOs own less than 5% threshold. Meanwhile, there is a lack of evidence to deduce that CEO turnover is different following levels of firm performance in firms where CEOs own 5% threshold of firm shares.

## 6.5. SUMMARY

In summary, the observations of this study are conducted based upon 156 listed firms on Hanoi and HoChiMinh Securities Centres. The 156 listed firms are operating in fourteen industries following the industry classification of the State Securities Commission. The sample for this study is based on these firms with 780 firm-year observations. Among these observations, there are 88 (11.28%) replacements in CEO position during the period of 2006-2010. Additionally, the replacements of CEOs normally occurred in the second half of fiscal years. In particular, over 57% of CEOs were replaced in the second half of the fiscal year. Moreover, the CEO turnover rate increased in the last 3 years of the observation period. The increase of CEO replacement rate is explained by the data description related firm performance which shows that the lowest performance was in 2008. Hence, it is argued that CEOs would have to respond to their firm performance in year 2008 and therefore would be dismissed in 2008 or later in 2009. Along with this, the evidence on CEO turnover shows that the highest CEO replacement rates are found in 2008 and 2009. Together, the data related to firm performance reveals that implementation of industry-adjusted ratios is likely to provide a better relative measure of performance than unadjusted ratios. This implementation is help to overcome the dispersion in firm performance among different industries.

In considering the ownership structure in Vietnamese-listed firms, the data exhibits that the largest shareholder is commonly state ownership. Meanwhile, the presence of large individual shareholder in Vietnamese-listed firms is small. Comparing to these types of ownership, the presence of non-state institutions and companies as large shareholders in Vietnamese-listed firms is in the minority, since the development of non-state enterprises is smaller than state enterprises. Furthermore, both data description and correlation analysis reveal that the presence of large state shareholding decreases the presence of non-state shareholding in Vietnamese-listed firms. Together with the type of ownership, it is reported that there is uneven in the level of ownership concentration among Vietnamese-listed firms. In addition, the level of ownership concentration is highest in firms which have the presence of large state shareholding. Meanwhile, the level of ownership concentration is decreasing by the presences of large non-state institutional and individual shareholder. In fact, the lowest level of ownership

concentration is found in which have no shareholder holding 20% threshold of firm shares. Regarding ownership concentration in different industries, the data also reveals that most industry has median value of ownership concentration within the range of 0.10-0.25. The highest concentration level in ownership is found in the energy industry which has the highest concentration level, 0.26. The reason of the highest level is that most of the firms in the energy sector are SOEs.

Regarding the characteristics of board, data description indicated that the average size of BOM in Vietnamese-listed firms is around 5 to 6 directors. This board size is smaller compared to listed firm in the U.K, the U.S, and China. Besides, the percentage of independent directors on BOM is 0.40. Together with board characteristics, descriptive statistics reports that the average age of CEOs in Vietnamese-listed firms is 50 years old and the normal tenure in Vietnamese enterprises is 5 years. Compared to other countries, CEO tenure in Vietnamese firms is shorter than firms in the U.K and the U.S. However, the percentage of CEO duality is reported to be higher than in Chinese firms. Since CEO and chair position are normally one person in a firm which has a majority of shareholding belonging to one shareholder such as SOEs or private enterprises, the percentage of duality in Vietnamese firms is high. Among CEO characteristics, CEO ownership is the most important characteristic. In the sample of this study, the percentage of CEO owned 5% threshold is small, 15.9%. Hence, it can be seen that CEOs in Vietnamese-listed firms normally hold under 5% firm shares. This situation is the same as in other countries reported by previous studies. For instance, Bhagat and Bolton (2008) reported that CEOs in U.S firms are holding around 2.92% of firm shares on average, whereas Coles et al. (2008) provided that the percentage of shares owned by CEOs in UK firms are around 1.85%.

In accordance with the result of Pearson correlation tests, most of firm performance's proxies significantly correlate to CEO turnover, excepting the proxies of profit margin. Besides, the presence of large institutional ownership is significant positive correlation to CEO turnover, whereas the presence of large state or individual ownership and ownership concentration are found statistically to have insignificant correlations to CEO turnover. Along with this result, the percentage of outsider reveals a strong positive relationship with CEO turnover. Meanwhile, size of board, firm size and firm leverage



have a statistically weak relationship with CEO turnover. The insignificant correlations of CEO ownership and tenure to CEO turnover are also reported. However, CEO duality and CEO age are reported to have strong relationships with CEO turnover.

In considering the correlation between firm performance and other variables, most CEO characteristics have a weak relationship with firm performance measured by all proxies. Among CEO characteristics, CEO duality is the only variable which has a significant positive correlation to firm performance measured by AROA. Besides, the presence of large state ownership positively relates to firm performance. Meanwhile, non-state shareholders seem to weaken firm performance of listed enterprises since the correlation between those variables and firm performance is negative. Together, the correlation between board size and profit margin's proxies is negative, whereas board size has no significant correlation to other firm performance measures. Furthermore, the percentage of outsider is found to have significant relationships with all proxies of firm performance. However the relationships have different effects according to different proxies of firm performance.

Based on the correlation between CEO characteristics and other variables, there are several assessments which provide a general picture of Vietnamese-listed firms. For instance, the proportion of shares held by CEOs and the percentage of CEO holding chairman position in firms which have the presence of a large state shareholder is smaller. Besides, the tenure of CEO in this type of firms is shorter than in other firms. On the other hand, inverse situations are found in firms where individual shareholders are holding 20% threshold of firm shares. In comparing the two types of ownerships, CEO ownership and tenure are only slightly affected by the presence of large shareholding belonging to non-state institutions and companies. Moreover, large institutional shareholders are likely to appoint young CEO and to create separation between CEO and chairman positions. In addition, the same correlation is found between the percentage of outsider, and CEO duality and tenure. Besides, CEOs in firms which have a higher percentage of outsiders on board and smaller size of board, the CEO has a shorter time in position and is younger than in other firms. Nevertheless, board characteristics have no significant relationship with the presence of CEO holding 5% threshold of firm shares in Vietnamese-listed enterprises.

According to univariate analysis, it leads to an assessment that firm performance measured by return on assets' proxies increases the CEO turnover rate which is supported by the studies of Denis and Denis (1995), Huson et al. (2001), Kato and Long (2006a, b) and Firth et al. (2006). However, t-statistics and z-statistics provide a result that there is no difference in CEO turnover rate created by the presence of large state and individual shareholders. Meanwhile, the number of replacements in CEO position increases in firms where non-state institutions or companies are holding 20% threshold of firm shares. This confirms the result found by correlation tests. Overall, the percentage of CEO dismissals increases in firms at the bottom level of firm performance. Additionally, the significance of these differences is affected by the existence of a large shareholding. Together with the examinations above, univariate analysis exhibits that the percentage of CEO replacements in firms having the percentage of outsider over 0.40 is 13.91%, whereas the percentage is only 7.5% in firms having under 0.40. Especially, the CEO turnover rate is higher in firms which are at the bottom level of firm performance and have the percentage of outsider beyond 0.40. Besides, univariate analysis reported that there are differences in the percentage of CEO replacement at different levels of firm performance in firms where CEOs own less than 5% threshold. Meanwhile, there is a lack of evidence to deduce that CEO turnover is different following levels of firm performance in firms where CEOs own 5% threshold of firm shares. Hence, it can be assessed that CEO ownership has less influence on CEO turnover.

**CHAPTER SEVEN: LOGISTICS REGRESSION ANALYSIS**

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## 7.1. INTRODUCTION

To examine the developed hypotheses of this study, this chapter is going to perform the most important analysis which is logistics regression analysis. In fact, the descriptive statistics in the prior chapter has provides several initial assessments for testing the developed hypotheses of this study. For example, firm performance and the percentage outsiders by which have a significant relationship with the increase of CEO turnover rate. Meanwhile, large institutional shareholding is the only type of shareholder has effects on the percentage of CEO replacement. Similarly, CEO ownership has a weak relation with CEO turnover rate. However, it is believed that logistics regression models would provide accurate and reliable results in order to distinguish the abilities of variables in predicting the probability of CEO turnover in Vietnamese-listed firms. In particular, the logistics regression models which are developed in Chapter Five are applied to test the hypotheses of this study. Furthermore, the results of hypotheses are analysed in order to gain a better understanding on the decision of CEO dismissals in Vietnamese-listed firms.

## 7.2. LOGISTICS REGRESSION ANALYSIS

In order to test the developed hypotheses of this study, this section provides the results and analysis of logistics regression models' implementation. Particularly, the determinants of CEO turnover are firstly tested. Further, the sensitive analysis is performed in regarding the assessments of the influence of ownership types, the percentage outsider and CEO ownership on the link between CEO turnover and firm performance.

### 7.2.1. Determinants of CEO turnover

To test the first three groups of hypotheses in this study, this section is going to analyse the contribution of variables in predicting the probability of CEO turnover in employed firms. Particularly, the analysis of CEO turnover's determinants is revealed by the development and analysis of logistics regression models.

With regard to the concern on the effects of firm characteristics on the likelihood of CEO turnover, logistics regression models which include firm performance, firm size and firm leverage are used. The results of the logistics regressions are presented in Table 7-1. In detail, firm performance measured by all proxies has negative influences and is statistically significant. Among these significant negative effects, firm performance measured by profit margin's proxies is significant at the 5% level, whereas other proxies are significant at the 1% level. These statistical results give a right direction as is the expectation on the hypothesis 1a. On the other hand, firm size and firm leverage are reported to have statistical insignificant influence to the probability of CEO turnover, although they have positive signs in predicting CEO turnover. Moreover, the Nagelkerke R<sup>2</sup> values of the regression models are small. The maximum Nagelkerke R<sup>2</sup> values is 0.044 by measuring firm performance by ADJEPS and the minimum values is 0.015 by AMARGIN proxy. Besides, models following adjusted proxies are stronger in explaining the likelihood of CEO dismissals than average values. Together, models based on ADJEPS and ADJROA result in the largest Nagelkerke R<sup>2</sup> values.

**Table 7-1: Logistics estimation of the sensitivities of firm performance and CEO turnover**

	Firm performance's proxies					
	ADJEPS	ADJROA	ADJMARGIN	AEPS	AROA	AMARGIN
<b>PERFORMANCE</b>	-0.010*** (0.003)	-0.202*** (0.054)	-0.086** (0.035)	-0.008*** (0.003)	-0.168*** (0.064)	-0.096** (0.044)
<i>Control Variables</i>						
<b>FSIZE</b>	0.053 (0.081)	0.031 (0.081)	0.058 (0.080)	0.056 (0.079)	0.033 (0.080)	0.062 (0.080)
<b>FLEVERAGE</b>	0.388 (0.795)	0.151 (0.799)	0.847 (0.791)	0.400 (0.791)	0.196 (0.805)	0.861 (0.793)
<b>Sample size</b>	780	780	780	780	780	780
<b>Nagelkerke R<sup>2</sup></b>	0.044	0.040	0.018	0.023	0.021	0.015
<b>Chi-square</b>	17.635***	15.847***	7.261*	9.050**	8.424**	6.126
Standard errors are reported in parentheses. *, **, and *** denote significance at 0.10, 0.05, and 0.01 levels respectively.						

After testing the probability of firm performance, firm size and firm leverage, the logistics regression models above are argued to add ownership structure' variables in order to examine the influences of firm characteristics on the likelihood of CEO replacements. Indeed, the Nagelkerke R<sup>2</sup> values and Chi-square values of these models

are increase in compared to prior models. It is believed that those models are better in predicting the likelihood of CEO dismissals.

**Table 7-2: Logistics estimation of CEO turnover by firm characteristics**

Firm performance's proxies						
	ADJEPS	ADJROA	ADMARGIN	AEPS	AROA	AMARGIN
<b>PERFORMANCE</b>	-0.010*** (0.003)	-0.201*** (0.055)	-0.085** (0.035)	-0.008** (0.003)	-0.162** (0.065)	-0.092** (0.044)
<b>STATE</b>	0.400 (0.315)	0.400 (0.318)	0.279 (0.312)	0.361 (0.313)	0.346 (0.314)	0.269 (0.311)
<b>INST</b>	0.678** (0.335)	0.688** (0.335)	0.716** (0.330)	0.689** (0.330)	0.696** (0.331)	0.700** (0.330)
<b>INDV</b>	-0.266 (0.667)	-0.197 (0.677)	-0.084 (0.672)	-0.151 (0.663)	-0.073 (0.668)	-0.047 (0.670)
<b>CONC</b>	-1.228 (1.030)	-1.202 (1.022)	-1.203 (1.026)	-1.229 (1.024)	-1.193 (1.020)	-1.194 (1.024)
<i>Control Variables</i>						
<b>FSIZE</b>	0.063 (0.083)	0.043 (0.084)	0.062 (0.083)	0.063 (0.082)	0.042 (0.082)	0.065 (0.082)
<b>FLEVERAGE</b>	0.469 (0.820)	0.184 (0.832)	0.979 (0.820)	0.496 (0.817)	0.275 (0.837)	0.984 (0.823)
<i>Sample size</i>	780	780	780	780	780	780
<i>Nagelkerke R<sup>2</sup></i>	0.055	0.051	0.030	0.034	0.032	0.027
<i>Chi-square</i>	22.050***	20.195***	12.048*	13.517**	12.868*	10.770

Standard errors are reported in parentheses. \*, \*\*, and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels respectively.

Along with the prediction abilities of the models above, the coefficient of variables are represented. In particular, firm performance is still reported to have negative significant relationship with the probability of CEO turnover on all models. The power of firm performance is significant at the 1% level under ADJEPS and ADJROA proxies. Meanwhile, its power is decreased to the 5% level following other firm performance's proxies. Together, firm size and firm leverage are still insignificant in all the models even though their signs are positive to the likelihood of CEO turnover. Interestingly, the presence of large state shareholding is found to have positive correlation to CEO turnover. This result is in inverse direction with the expectation defined in its hypothesis and the result of correlation test. However, the relationship is insignificant. Similarly, the presence of large individual shareholders in firms has insignificant negative correlation to the probability of CEO turnover. Again, the result is in opposite direction with the correlation test which indicated insignificant positive relationship between the presence of large individual shareholders and CEO turnover.

Among the types of large shareholder, large shareholdings belonging to non-state institutions and companies are found to have significant relationships with the likelihood of CEO turnover in observed firms. Their relationships are positive significant at the 5% level following all proxies of firm performance. It confirmed the result of the correlation test that the presence of large non-state institutional shareholder positively correlates to CEO turnover. Together with the presence of large shareholders, the sensitivity of ownership concentration to CEO turnover is found statistically insignificant since CONC variable has  $p\text{-value} > 0.1$  in all augmented regression models. Hence, the hypothesis 1g lacks of evidence to conclude that firms with a higher level of ownership concentration have higher probability of CEO dismissal, although the sign is reported negative to the likelihood of CEO turnover in the augmented models. Overall, the hypotheses 1a and 1e give evidence to support, whereas the hypotheses 1b, 1c, 1d, 1f and 1g lack support from the results of those regression models above.

In order to test the hypotheses related to board characteristics, OUTSIDER and BSIZE are added into the regression models. Based on the results of logistics regressions from Table 7-3, it confirms the important role of firm performance in making the decision of CEO dismissal. As a result, PERFORMANCE is reported to have negative significant correlation to the probability of CEO turnover following all measures of firm performance. Additionally, the correlations are significant at the 1% level in measuring firm performance by industry-adjusted proxies, whereas they are significant at the 5% level following average proxies. Moreover, the presence of large state and individual shareholding, firm size and firm leverage is found to have same signs and the significance of correlations is as in the regression models before adding board characteristics' variables. Nevertheless, the significance of correlations between the presence of large institutional shareholding and the likelihood of CEO replacement are decreased in the augmented regression models. Especially, the influences of large non-state institutional shareholders decreased from significant at the 5% level to insignificant at the 10% level. It is argued that the existence of outsiders on the board reduces the effects of large non-state institutional shareholders to CEO turnover. As a result, the coefficient of OUTSIDER is estimated with strong positive relationship with CEO turnover at the 5% level in all examined logistics regression models. It is consistent with the correlation result and univariate test on the relationship between the

percentage of outsider and CEO turnover. Moreover, it provides an evidence to confirm the hypothesis 2b. Along with the percentage of outsider on board, board size is reported to have statistical insignificant relationship with the likelihood of CEO turnover. Although the sign of BSIZE in examined models is found negative to CEO turnover, it is argued that the hypothesis 2a lacks of evidence to confirm this.

**Table 7-3: Logistics estimation of the sensitivities of firm and board characteristics to CEO turnover**

	Firm performance's proxies					
	ADJEPS	ADJROA	ADJMARGIN	AEPS	AROA	AMARGIN
<b>PERFORMANCE</b>	-0.010*** (0.003)	-0.192*** (0.056)	-0.094*** (0.035)	-0.007** (0.003)	-0.151** (0.065)	-0.106** (0.044)
<b>STATE</b>	0.287 (0.326)	0.292 (0.331)	0.170 (0.328)	0.246 (0.325)	0.243 (0.328)	0.156 (0.326)
<b>INST</b>	0.440 (0.360)	0.402 (0.363)	0.352 (0.360)	0.427 (0.355)	0.401 (0.358)	0.330 (0.359)
<b>INDV</b>	-0.307 (0.675)	-0.224 (0.683)	-0.141 (0.680)	-0.170 (0.668)	-0.096 (0.673)	-0.110 (0.680)
<b>CONC</b>	-1.150 (1.095)	-1.065 (1.091)	-1.039 (1.097)	-1.088 (1.090)	-1.036 (1.088)	-1.042 (1.094)
<b>OUTSIDER</b>	1.002** (0.537)	1.146** (0.537)	1.450*** (0.535)	1.094** (0.537)	1.202** (0.534)	1.457** (0.535)
<b>Control Variables</b>						
<b>FSIZE</b>	0.064 (0.091)	0.040 (0.091)	0.050 (0.090)	0.056 (0.090)	0.033 (0.090)	0.056 (0.091)
<b>FLEVERAGE</b>	0.316 (0.820)	0.032 (0.830)	0.813 (0.819)	0.348 (0.816)	0.131 (0.843)	0.830 (0.823)
<b>BSIZE</b>	-0.071 (0.107)	-0.046 (0.105)	-0.038 (0.103)	-0.054 (0.105)	-0.037 (0.104)	-0.043 (0.103)
<b>Sample size</b>	780	780	780	780	780	780
<b>Nagelkerke R<sup>2</sup></b>	0.065	0.063	0.049	0.046	0.046	0.047
<b>Chi-square</b>	26.258***	25.140***	19.776**	18.201**	18.243**	18.628**

Standard errors are reported in parentheses. \*, \*\*, and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels respectively.

After testing several logistics regression models to find the evidence for the first two groups of hypotheses in this study, the full model indicated in Chapter 5<sup>7</sup> which includes all variables from firm, board and CEO characteristics are examined.

<sup>7</sup> The model (5) indicated in Chapter Five, Section 5.6.1



Firstly, the Nagelkerke R<sup>2</sup> and Chi-square values of logistics regression models based on the model (5) are greater than the prior examined models (Table 7-4). Hence, it is believed that the prediction abilities of variables in the models are increased. In particular, the variables which are added in the prior regression models such as PERFORMANCE, INST, INDV, FLEVERAGE, FSIZE and BSIZE are reported with similar signs and significant as estimated. In detail, PERFORMANCE is found to significantly negative correlate to the likelihood of CEO replacements. It is significant at the 1% level following industry-adjusted proxies and is significant at the 5% level according to average proxies. Thus, it gives more evidence to support the hypothesis 1a. However, the hypotheses related to the presence of non-state institutional shareholder, firm leverage, firm size and board size are lack of supports even though their signs in the models are the same as expected from the hypotheses. As a result, their relationships with the probability of CEO dismissals are reported statistically insignificant. Similar to these variables, the presence of large individual shareholders is statistically insignificant in predicting the likelihood of CEO turnover, although it has positive sign to CEO turnover. Hence, it could only be concluded that the presence of large individual shareholders has insignificant positive relationship with the possibility of CEO turnover. Also, the hypothesis 1e related to INST variables is lack of evidence to confirm.

Along with the coefficient results of these variables, coefficient estimations of STATE are insignificant and have mixed signs. For instance, the presence of large state shareholding has positive correlation to CEO turnover following earning per share's proxies (ADJEPS, AEPS) and return on assets' proxies (ADJROA, AROA). Meanwhile its relationships are negative when firm performance is measured by profit margin's proxies (ADJMARGIN, AMARGIN). Nevertheless, all of the correlations are statistically insignificant and they therefore fail to support the hypothesis 1b. Further, ownership concentration, which is one of firm characteristics, is expected to have a negative correlation with the probability of CEO dismissal. Indeed, the signs of CONC in the augmented models above are negative; they, however, are statistically insignificant at the 10% level. Therefore, the hypothesis 1g which indicated the level of ownership concentration decreases the possibility of CEO turnover lacks support from the data of this study.

Table 7-4: Logistics estimation of CEO turnover's determinants

	Firm performance's proxies					
	ADJEPS	ADJROA	ADJMARGIN	AEPS	AROA	AMARGIN
<b>PERFORMANCE</b>	-0.010*** (0.003)	-0.192*** (0.057)	-0.099*** (0.035)	-0.007** (0.003)	-0.151** (0.068)	-0.116** (0.045)
<b>STATE</b>	0.104 (0.339)	0.080 (0.342)	-0.041 (0.340)	0.062 (0.338)	0.034 (0.339)	-0.062 (0.338)
<b>INST</b>	0.389 (0.374)	0.338 (0.377)	0.274 (0.375)	0.377 (0.369)	0.343 (0.372)	0.247 (0.376)
<b>INDV</b>	-0.262 (0.742)	-0.221 (0.746)	-0.128 (0.750)	-0.109 (0.735)	-0.060 (0.737)	-0.094 (0.753)
<b>CONC</b>	-1.317 (1.131)	-1.087 (1.117)	-1.075 (1.126)	-1.201 (1.123)	-1.046 (1.112)	-1.091 (1.123)
<b>OUTSIDER</b>	0.838 (0.560)	1.064* (0.553)	1.406** (0.552)	0.958* (0.550)	1.123** (0.549)	1.407** (0.551)
<b>CEOWN</b>	-0.535 (0.420)	-0.583 (0.413)	-0.637 (0.410)	-0.569 (0.415)	-0.626 (0.410)	-0.662 (0.410)
<i>Control Variables</i>						
<b>FSIZE</b>	0.056 (0.094)	0.023 (0.095)	0.031 (0.094)	0.047 (0.093)	0.016 (0.093)	0.038 (0.094)
<b>FLEVERAGE</b>	0.205 (0.857)	0.000 (0.860)	0.781 (0.853)	0.230 (0.851)	0.077 (0.863)	0.809 (0.857)
<b>BSIZE</b>	-0.085 (0.112)	-0.063 (0.110)	-0.038 (0.108)	-0.067 (0.110)	-0.044 (0.109)	-0.045 (0.108)
<b>AGE</b>	0.052*** (0.018)	0.051*** (0.018)	0.052*** (0.018)	0.051*** (0.018)	0.050*** (0.018)	0.051*** (0.018)
<b>TENURE</b>	0.038 (0.036)	0.038 (0.036)	0.043 (0.036)	0.041 (0.036)	0.040 (0.036)	0.044 (0.036)
<b>DUALITY</b>	-0.583** (0.295)	-0.493* (0.294)	-0.510* (0.291)	-0.554* (0.293)	-0.494* (0.292)	-0.519* (0.291)
<i>Sample size</i>	780	780	780	780	780	780
<i>Nagelkerke R<sup>2</sup></i>	0.106	0.102	0.092	0.087	0.086	0.090
<i>Chi-square</i>	43.145***	41.348***	37.253***	35.090***	34.764***	36.390***

Standard errors are reported in parentheses. \*, \*\*, and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels respectively.

In considering the influences of board characteristics on the probability of CEO replacement, the results of logistics regressions provide strong evidences to confirm the hypothesis of the percentage of outsiders. Particular, the results of OUTSIDER in logistics regressions are significant positive relationship with the likelihood of CEO turnover following most proxies of firm performance except AEPS. Indeed, the effect of OUTSIDER in the model with firm performance measured by APES is quite close to

the 10% level of significant. Thus, the hypothesis 2b is argued to be supported. Meanwhile, the percentage of outsiders provides a strong positive influence on the decision of CEO dismissal, board size negatively correlates to the likelihood of CEO turnover. It is the same as the expectation on the hypothesis 2a. However, its influences are statistical insignificant at the 10% level following the results of logistics regressions on Table 7-4. Hence, the hypothesis 2a lacks evidence to conclude that board size has negative influence on the possibility of CEO turnover.

In order to test the hypotheses related to CEO characteristics, the results on Table 7-4 reveal that CEO tenure has no significant relationship with the likelihood of CEO turnover, although its signs in the full models are positive. Meanwhile, age of CEO and CEO duality have significant correlation to CEO turnover. Additionally, CEO age positively correlates to the probability of CEO turnover and is significant at the 1% level, whereas CEO duality negatively relates to the likelihood of CEO turnover and is significant at the 10% level. These results confirm the hypothesis 2c that the possibility of CEO replacement in firms where a CEO also holds chairman position is lower than in other firms. On the other hand, the hypothesis 3a is supported in an inverse direction that the likelihood of CEO turnover increases among firms along with the aging of CEOs. In other words, young CEOs are less likely to be dismissed than old CEOs. Together with these characteristics of CEOs, CEO ownership is one of the important variables in this study. However, the influences of CEO ownership on the possibility of CEO replacement are reported statistical insignificant at the 10% level. Therefore, there is a lack of evidence to support the hypothesis 3c that CEO ownership has negative relationship with the probability of CEO turnover, even though the signs of CEOWN variable in logistics regression are negative.

Regarding the results of logistics regression from the Table 7-4, the change in probabilities of CEO replacement is examined. Indeed, CEO determinants which are statistically significant at the 10% level or beyond are going to be examined. Besides, those determinants are examined based on the chances from the 25<sup>th</sup> percentile to the 75<sup>th</sup> percentile value for continuous variables and from 0 to 1 for dummy variables, whereas other variables are given by mean values. Particularly, the implied chances in

probability following different proxies of firm performance are represented in Table 7-5 below.

**Table 7-5: Changes in the probability of CEO turnover following different proxies of firm performance**

	Firm performance's proxies					
	ADJEPS	ADJROA	ADJMARGIN	AEPS	AROA	AMARGIN
<b>PERFORMANCE</b>	-7.30%	-6.84%	-3.71%	-4.45%	-5.51%	-3.86%
<b>OUTSIDER</b>	2.95%	3.85%	4.79%	3.44%	4.91%	4.74%
<b>AGE</b>	4.37%	4.40%	4.21%	4.37%	5.22%	4.08%
<b>DUALITY</b>	-5.16%	-4.53%	-4.38%	-5.02%	-5.50%	-4.40%

As presented in Table 7-5, the probability of CEO replacement decreases within the range from -7.30 to -3.71% when firm performance increases from the 25<sup>th</sup> percentile to the 75<sup>th</sup> percentile values. The highest change in possibility of CEO replacement following firm performance is found in ADJEPS and ADJROA which are -7.30% and -6.84%. Hence, it can be seen that CEO turnover is more sensitive to industry-adjusted values of firm performance in the current period than the average values of current and previous periods. Besides, the changes in possibility of CEO turnover for industry-adjusted proxies are the highest in compared to other variables. In contrast, the changes in the percentage of outsiders on board have a higher impact on the probability of CEO turnover in measuring firm performance by average values between the current and prior period. Besides, the highest changes in the probability of CEO turnover following OUTSIDER are found under the implementation of profit margin's ratios. This leads to an assessment that independent directors are more likely to judge CEO's performance by profit margin's ratios and both current and prior firm performance.

Along with these factors, the changes in the probability of CEO turnover following the ages of CEO are indicated between 5.22% and 4.08%. Especially, the possibility is that changes are higher when firm performance is measured by return on assets' ratios. However, the differences among the possible changes in CEO replacement for CEO age

are modestly small, around 1% following different firm performance's proxies. Similarly, CEO duality reveals smaller difference in the changes of the possibility of CEO dismissals. In detail, the percentages of changes are within the range of from -4.38% to -5.50%. It is able to deduce that firms in which CEOs are also chairmen have a smaller probability of CEO dismissal than in other firms. The differences are in the range of 4.38%-5.50% depending on the measure of firm performance.

### 7.2.2. Sensitive analysis on the link CEO turnover-performance

In pursuing the examination of the interaction and the sensitivities of other important factors on the link between firm performance and CEO turnover, the equation (6) in Chapter Five is applied. Nevertheless, this section firstly augments by adding the interactions of ownership structure's variables with firm performance to the logistics regression models based on the model (5) in the prior section. By doing so, the sensitivities of ownership structure on the link between firm performance and CEO turnover would be clearer and more robust.

As mentioned above, ownership structure's interactions with firm performance are added into the model (5) by four interaction variables which are PERFORMANCE\*STATE, PERFORMANCE\*INST, PERFORMANCE\*INDV and PERFORMANCE\*CONC. Indeed, there are changes in logistics regression results in compared to the results based on the model (5). In particular, the significance of firm performance to the likelihood of CEO turnover is decreased (Table 7-6). Firm performance by ADJEPS is the only one statistical significant at the 5% level. Meanwhile, ADJROA and ADJMARGIN are reported significant at the 10% level. Especially, the proxies computed by the average values between current and prior performance are statistical insignificant at the 10% level. Besides, the significance of CEO duality's influences is weakened. Most of DUALITY's results are insignificant except the one in applying ADJEPS is significant at the 10% level. On the other hand, the influence of CEO age and the percentage of outsiders on board have the same significance and small changes as reported in the regression results of the model (5). Similarly, the signs and significance of ownership structure's variables, firm size, firm leverage, board size, CEO tenure and CEO ownership are unchanged.

Table 7-6: Ownership structure and firm performance-CEO turnover sensitivities

	Firm performance's proxies					
	ADJEPS	ADJROA	ADJMARGIN	AEPS	AROA	AMARGIN
<b>PERFORMANCE</b>	-0.013** (0.006)	-0.205* (0.115)	-0.097* (0.057)	-0.006 (0.006)	-0.111 (0.144)	-0.124 (0.076)
<b>STATE</b>	0.100 (0.364)	0.097 (0.361)	-0.046 (0.347)	0.023 (0.353)	-0.010 (0.350)	-0.105 (0.345)
<b>PERFORMANCE</b>	0.000 (0.008)	0.094 (0.156)	0.058 (0.105)	-0.002 (0.009)	0.055 (0.181)	0.017 (0.123)
<b>*STATE</b>	0.182 (0.426)	0.193 (0.413)	0.137 (0.397)	0.119 (0.421)	0.219 (0.395)	0.159 (0.392)
<b>PERFORMANCE</b>	-0.011 (0.010)	-0.058 (0.181)	-0.168 (0.140)	-0.016 (0.011)	-0.011 (0.212)	-0.172 (0.160)
<b>*INST</b>	-1.402 (1.765)	-2.234 (2.002)	-1.898 (1.622)	-4.918 (3.574)	-3.944 (2.748)	-1.896 (1.694)
<b>PERFORMANCE</b>	-0.015 (0.026)	-0.533 (0.481)	-0.257 (0.297)	-0.089 (0.064)	-1.581 (0.996)	-0.483 (0.446)
<b>*INDV</b>	-1.150 (1.166)	-1.119 (1.235)	-1.094 (1.175)	-0.973 (1.175)	-0.844 (1.201)	-0.996 (1.173)
<b>PERFORMANCE</b>	0.028 (0.025)	-0.095 (0.535)	0.017 (0.403)	0.019 (0.029)	-0.209 (0.612)	0.316 (0.479)
<b>*CONC</b>	0.884 (0.584)	1.106** (0.556)	1.408** (0.560)	1.146** (0.573)	1.272** (0.558)	1.415** (0.582)
<b>CEOWN</b>	-0.407 (0.418)	-0.494 (0.412)	-0.459 (0.406)	-0.369 (0.409)	-0.498 (0.403)	-0.523 (0.409)
<i>Control Variables</i>						
<b>FSIZE</b>	0.052 (0.096)	0.006 (0.097)	0.019 (0.096)	0.025 (0.095)	-0.106 (0.096)	0.021 (0.096)
<b>FLEVERAGE</b>	0.314 (0.863)	0.198 (0.872)	0.940 (0.853)	0.404 (0.851)	0.308 (0.875)	0.822 (0.866)
<b>BFSIZE</b>	-0.100 (0.116)	-0.051 (0.113)	-0.055 (0.111)	-0.057 (0.111)	-0.022 (0.110)	-0.052 (0.111)
<b>AGE</b>	0.058*** (0.019)	0.052*** (0.019)	0.054*** (0.019)	0.053*** (0.019)	0.050*** (0.019)	0.054*** (0.019)
<b>TENURE</b>	0.030 (0.037)	0.036 (0.037)	0.042 (0.037)	0.041 (0.037)	0.042 (0.037)	0.045 (0.037)
<b>DUALITY</b>	-0.528* (0.296)	-0.470 (0.296)	-0.462 (0.291)	-0.457 (0.294)	-0.445 (0.294)	-0.471 (0.293)
<b>Sample size</b>	780	780	780	780	780	780
<b>Nagelkerke R<sup>2</sup></b>	0.117	0.111	0.110	0.110	0.105	0.108
<b>Chi-square</b>	47.577***	45.082***	44.832***	44.500***	42.672***	43.985***

Standard errors are reported in parentheses. \*, \*\*, and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels respectively.

Along with the results of variables included in the model (5), the results of interactions are reported in Table 7-6. In particular, none of ownership structure's interaction with firm performance is reported significant at the 10% level. For example, both the interactions of the presence of non-state institutional and individual shareholding are found insignificant, although they have negative signs. Hence, it leads to the assessment that there is a lack of evidence to support the hypotheses 4a-d.

After adding the interaction of ownership structure's variables with firm performance in the model (5) to find initial assessments on the hypotheses of ownership structure and the sensitivity of the link between firm performance and CEO turnover, the model (6) which is developed in Chapter Five<sup>8</sup> is applied to test the fourth group of hypotheses. In comparing the logistics regressions models presented in Table 7-6, the augmented logistics regression models based on the model (6) including the interaction of outsider and CEO ownership with firm performance in order to test the sensitivities to the link between CEO turnover and firm performance.

In accordance to the results presented in Table 7-7, firm performance still has negative correlations with the likelihood of CEO turnover. However its correlations are insignificant following all firm performance's proxies. It can be understood that the influence of firm performance on the probability of CEO turnover is decreased by various effects of ownership structure, outsiders, and CEO ownership. Similarly, large individual shareholding, ownership concentration and CEO ownership have negative relationship with the possibility of CEO turnover, since their signs in logistics regression are negative. Nevertheless, their relationships are insignificant at the 10% level. In inverse direction, the presence of large non-state institutional shareholding positively correlates to the likelihood of CEO turnover following all firm performance's proxies. Besides, a large state shareholder is reported to have mixed influence on CEO turnover. As a result, large state shareholding is negative by applying earnings per share's ratios, whereas it is positive in using other proxies to measure firm performance. On the other hand, OUTSIDER is the only independent variable which has significant relationship with CEO turnover except in measuring firm performance by ADJEPS.

Together with these independent variables, there are no changes in the significant and signs of control variables to the probability of CEO turnover. For instance, CEO age is still positively significant with the chance of CEO dismissal, whereas firm leverage and CEO tenure have insignificant positive correlations with the probability of CEO turnover. These results indicate that the age of CEO is more likely to be considered in order to provide a decision in replacing a CEO in Vietnamese-listed firms. In addition, CEO duality and board size are reported with negative statistical insignificant relations

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<sup>8</sup> See further in Chapter Five, Section 5.6.1

with the possibility of CEO dismissal. Also, firm size is insignificant at the 10% level following all proxies of firm performance.

**Table 7-7: Random effects on the link between firm performance and CEO turnover sensitivities**

	Firm performance's proxies					
	ADJEPS	ADJROA	ADJMARGIN	AEPS	AROA	AMARGIN
PERFORMANCE	-0.012 (0.007)	-0.170 (0.152)	-0.084 (0.090)	-0.004 (0.009)	-0.082 (0.187)	-0.079 (0.124)
STATE	0.049 (0.372)	0.076 (0.365)	-0.071 (0.350)	-0.014 (0.356)	-0.023 (0.352)	-0.139 (0.347)
PERFORMANCE *STATE	-0.001 (0.008)	0.102 (0.154)	0.066 (0.105)	-0.002 (0.009)	0.058 (0.180)	0.020 (0.125)
INST	0.077 (0.423)	0.143 (0.414)	0.053 (0.403)	0.055 (0.420)	0.183 (0.396)	0.063 (0.398)
PERFORMANCE *INST	-0.010 (0.009)	-0.003 (0.188)	-0.176 (0.141)	-0.014 (0.011)	0.035 (0.219)	-0.160 (0.162)
INDV	-1.196 (1.798)	-2.081 (1.945)	-1.638 (1.510)	-4.409 (3.586)	-3.832 (2.805)	-1.709 (1.625)
PERFORMANCE *INDV	-0.019 (0.026)	-0.597 (0.474)	-0.259 (0.304)	-0.089 (0.068)	-1.638 (1.051)	-0.537 (0.476)
CONC	-1.013 (1.203)	-0.968 (1.252)	-1.165 (1.182)	-0.876 (1.190)	-0.766 (1.210)	-1.119 (1.183)
PERFORMANCE *CONC	0.024 (0.025)	-0.133 (0.537)	-0.032 (0.398)	0.018 (0.029)	-0.201 (0.616)	0.293 (0.485)
OUTSIDER	0.857 (0.596)	1.158** (0.576)	1.463** (0.564)	1.135* (0.581)	1.312** (0.565)	1.486*** (0.569)
PERFORMANCE *OUTSIDER	-0.007 (0.013)	-0.185 (0.267)	-0.060 (0.187)	-0.009 (0.015)	-0.165 (0.302)	-0.139 (0.226)
CEOWN	-0.525 (0.443)	-0.494 (0.418)	-0.524 (0.425)	-0.509 (0.432)	-0.500 (0.407)	-0.595 (0.428)
PERFORMANCE *CEOWN	0.019*** (0.007)	0.310** (0.154)	0.233 (0.139)	0.013 (0.008)	0.234 (0.182)	0.229 (0.160)
<i>Control Variables</i>						
FSIZE	0.062 (0.098)	0.019 (0.099)	0.027 (0.097)	0.031 (0.095)	-0.008 (0.097)	0.031 (0.097)
FLEVERAGE	0.567 (0.880)	0.367 (0.878)	0.963 (0.886)	0.548 (0.861)	0.420 (0.880)	0.886 (0.887)
BFSIZE	-0.127 (0.117)	-0.064 (0.113)	-0.059 (0.111)	-0.071 (0.112)	-0.031 (0.110)	-0.056 (0.111)
AGE	0.059*** (0.019)	0.053*** (0.019)	0.057*** (0.019)	0.052*** (0.019)	0.050*** (0.019)	0.056*** (0.019)
TENURE	0.034 (0.037)	0.037 (0.037)	0.037 (0.037)	0.041 (0.037)	0.040 (0.037)	0.038 (0.037)
DUALITY	-0.477 (0.299)	-0.401 (0.299)	-0.418 (0.293)	-0.428 (0.297)	-0.400 (0.297)	-0.421 (0.295)
Sample size	780	780	780	780	780	780
Nagelkerke R <sup>2</sup>	0.135	0.121	0.117	0.116	0.110	0.114
Chi-square	55.099***	49.326***	47.489***	47.245***	44.598***	46.318***

Standard errors are reported in parentheses. \*, \*\*, and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels respectively.



Along with coefficient results of independent and control variables, the coefficient estimations of interaction variables are reported in order to test the fourth group of hypotheses in this study. Indeed, the interactions of ownership structure's variables with firm performance are confirmed as insignificant at the 10% level. For example, both large individual and non-state institutional shareholding increase the sensitivity of the link between firm performance and CEO turnover, since  $PERFORMANCE*INST$  and  $PERFORMANCE*INDV$  have negative signs. Nevertheless, both of them are statistical insignificant at the 10% level. Thus, it shows that ownership structure has insignificant influence on the sensitivity of the link between firm performance and CEO turnover. It also points out that the hypotheses 4a-d lack evidence to conclude their effects on the link between firm performance and CEO turnover. Furthermore, the hypothesis that the link between firm performance and CEO turnover is strengthened by the increase of the percentage of outsider on board is weakly supported. Therefore, the result of interaction between outsider and firm performance ( $PERFORMANCE*OUTSIDER$ ) is found to have negative insignificant correlation with the likelihood of CEO dismissal following all measures of firm performance. Among the interactions with firm performance, the interaction between CEO ownership and firm performance is the only one which is found to have significant relations with the likelihood of CEO replacement. In particular, the relations are significant in measuring firm performance by ADJEPS (1%) and ADJROA (5%). Meanwhile, CEO ownership has insignificant influence on the link between firm performance and CEO turnover in applying other proxies. Therefore, the hypothesis 4f is partly supported.

### 7.3. ROBUSTNESS CHECK

In order to check the robustness of logistics regression results, this section compares the results to the results of correlation and univariate analysis. Foremost, firm performance is reported to have significant correlation to CEO turnover following both the correlation analysis and univariate analysis. Indeed, the univariate analysis has indicated that there are significant differences in CEO turnover rate following different levels of firm performance. Hence, the result of hypothesis 1a is robust.

In considering ownership structure, all of the hypotheses related to ownership structure lack evidence to support them. For example, the presence of large state shareholding is reported with insignificant correlation with CEO turnover. Furthermore, the univariate analysis indicated that there are no significant differences in CEO turnover rate created by the presence of a large state shareholder. Moreover, the relationship between the presence of a large shareholder and CEO turnover has mixed results. According to the logistics results, large state shareholding has negative relationship with CEO turnover by applying profit margin's ratios, whereas positive relationships are found in using other proxies. The results also can be seen in the univariate analysis. Particularly, the CEO turnover rate in firms having the presence of large shareholders is higher than firm without this presence at the second and the third quartiles of firm performance. Meanwhile, CEO turnover rates at the top and the bottom quartiles of firm performance in firms which have a large state shareholder are smaller than firms having the absence of this type of large shareholder. Therefore, this creates mixed and insignificant results. Similarly, the presence of large individual shareholding is reported insignificant following correlation, univariate and logistics regression analysis. Among ownership type, the shareholding held by non-state institutions and companies is found to have significant correlation with CEO turnover by examination of Pearson correlation at the 5% level and has significant correlation following the t-statistics and z-statistics at the 5% level. Thus, it is found to have significant correlation at the 5% level to the likelihood of CEO turnover in the regression models without board and CEO characteristics. However, the correlation is decreased in the augmented logistics regression models. It is argued that the added variables have reduced the influence of large non-state institutional shareholders.

In examining the effects of ownership structure's variables on the sensitivities of the link between firm performance and CEO turnover, the results from logistics regressions are consistent with the result of univariate analysis. For instance, the differences in CEO dismissal rate following the presence of large institutional shareholders in different level of firm performance are large in the bottom quartile. Since there are insignificant differences among the three top quartiles of firm performance, the influences of large institutional shareholding on the link between firm performance and CEO turnover become weak by other variables. Similarly, the influences of large state and individual

shareholding are conducted in same way. Besides, the univariate analysis has revealed that there are no significant differences in CEO turnover rate at different levels of firm performance between high and low concentrated ownership. Therefore, ownership concentration has no significant effect on the link between firm performance and CEO turnover.

To check the robustness of the correlation between the percentage of outsider and CEO turnover, all the results from logistics regression, univariate and correlation analysis support the hypothesis of this factor. Indeed, the percentage of outsider is examined and is reported with significant correlation with CEO turnover by Pearson correlation analysis at the 1% level. Also, t-statistics provide evidence to reject the null hypothesis that the differences in the percentage of outsiders have the same CEO turnover rate. Hence, it is reported that outsider significantly correlates to the probability of CEO turnover following most of firm performance measures except ADJEPS. However, univariate analysis has provided a report on CEO turnover rate and the percentage of outsider in different levels of firm performance, which reveals insignificant differences of CEO replacement rate among level of firm performance in firms having under 0.40 percentage of outsiders. Based on this result, it leads to assessment that the effects of outsiders on the link between firm performance and CEO turnover is strong when the percentage reaches to 0.40. Therefore, the interaction of outsider is insignificant in logistics regression.

On the other hand, the influence of CEO ownership on the probability of CEO turnover is insignificant by logistics regression analysis. This result is consistent with the result of the Mann-Whitney test and z-statistics which also indicate insignificant differences in the rate of CEO turnover following CEO ownership. Hence, it confirmed that CEO ownership has insignificant negative influence on CEO turnover. Nevertheless, the effects of CEO ownership on the sensitivities of the link between firm performance and CEO turnover are significant following ADJEPS and ADJROA proxies. Since univariate analysis of CEO turnover rate and CEO ownership in different level of firm performance reveals large differences in CEO turnover rate following the two bottom quartiles of firm performance between firms having CEO owned 5% threshold and under 5% threshold. In particular, the CEO rate at the two bottom quartiles in firms

having CEO ownership beyond 5% is smaller than in other firms. The distinction is only clear in measuring firm performance by ADJEPS and ADJROA, whereas it is unclear in following other proxies.

Regarding the role of control variables, the significance of control variables reported in correlation analysis support the result of logistics regression analysis. For example, both CEO age and CEO duality are reported with significant correlation to CEO turnover, whereas firm size, firm leverage, board size, and CEO tenure have insignificant correlations. However, this study has designed an additional variable in order to check the robustness of CEO age, since the literature pointed out that firms might retain poor performance CEOs to reduce the cost of resignation when they are close to retirement ages (Warner et al., 1988). Thereby, this study decided to choose the range between 59 and 61 years old in order to examine the probability of dismissal at these ages. The normal retirement policy in Vietnamese firms is at 60 years old. Besides, CEOs in this age group might have to be replaced either earlier or later than the time they are 60 years old. Therefore, a dummy variable of CEO age is defined as equalling to 1 if the ages of CEO are from 59 to 61 and equal to zero otherwise. It is believed that the dummy variable can capture the increase of CEO dismissal probability at a certain age (Whidbee, 2003; Linck et al., 2008). Furthermore, it can provide a better result, since this study is unable to distinguish the reason for CEO replacement.

Indeed, the coefficient estimations<sup>9</sup> of variables in new logistics models which have added the dummy variable of CEO age, reported that no change in the significance of ownership structure's variables, ownership concentration, CEO ownership, firm size, firm leverage, board size, and CEO tenure. Their coefficient estimations are reported insignificant at the 10% level. On the other hand, firm performance is still a core factor that helps to make the decision of CEO replacement, since their coefficients are significant at the 1% level following all firm performance's proxies. Besides, the role of outside directors as independents is confirmed. The same significant and signs of the influences of outsiders are reported in the new logistics regression models. However, CEO duality is less significant when the presence of CEO age dummy variable is added into the logistics models. Their significance in the new logistics regressions is close to

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<sup>9</sup> See the result of coefficient estimation in Table App-2 in Appendix

the 10% level. Thereby, it can be argued that the influences of CEO duality on the probability of CEO turnover are modestly negative, but those influences are weak when CEOs reach a certain of age. Lastly, CEO age still has positive significant correlation to the likelihood of CEO turnover, though its significance in logistics regressions decreases to the 10% level. Nevertheless, it confirmed the robustness of the results that young CEOs are less likely to be dismissed than old CEOs. Moreover, CEOs who are between 59-61 years old have to face a higher probability of replacement, since the coefficient estimation of the CEO age dummy variable is significant positive at the 1% level.

#### **7.4. SUMMARY AND ANALYSIS OF THE RESULTS OF HYPOTHESES**

Based on the results of logistics regression analysis in previous sections, the results of hypotheses are demonstrated. In order to gain a better understanding on the result, this section is going to summarise and analyse the results of the hypotheses. The analysis is presented following firm characteristics, board characteristics, and CEO characteristics to create systematic assessments.

##### **7.4.1. Firm Characteristics**

Foremost, firm performance is reported to have significant correlation with the likelihood of CEO turnover. The correlation is found significant at the 1% level. Thus, the hypothesis that firm performance has significant correlation with CEO turnover is strongly supported. Also, it pointed out that CEOs in Vietnamese-listed firms have to fulfil the economic objectives in order to reduce the probability of dismissal. The result is similar to a large number of findings in the literature of CEO turnover. However, the hypothesis on firm performance is the only one of the hypotheses on firm characteristics which has been supported. Other hypotheses lack evidence to support them. For example, firm size and firm leverage have positive correlations to the possibility of CEO turnover, however, their correlations are insignificant. As a result, firm size has a minority role in considering profitability and judging CEO performance. It is consistent with the assessment of Offenber (2009) that there is no evidence to prove that CEO turnover rate in small firms is higher than in large firms, although an increase in disciplinary CEO turnover occurs as firm size increases. Meanwhile, firm leverage in

this study reveals that employed firms have been controlling the firm leverage in secured ratios. Thereby, the effects of firm leverage on CEO turnover are unclear and insignificant. Overall, firm leverage is considered as a control factor in examining the likelihood of CEO turnover (Adams and Mansi, 2009)

**Table 7-8: Summary of Hypotheses on Firm Characteristics**

Hypotheses	Result
<b>Hypothesis 1a:</b> There is a significant negative correlation between CEO turnover and firm performance in Vietnamese-listed enterprises.	Supported
<b>Hypothesis 1b:</b> There is a positive relationship between CEO turnover and firm size in Vietnamese-listed enterprises.	Weak supported
<b>Hypothesis 1c:</b> There is a positive correlation between firm leverage and CEO turnover in Vietnamese-listed enterprises.	Weak supported
<b>Hypothesis 1d:</b> The state ownership has negative relation to CEO turnover in Vietnamese-listed enterprises.	Weak supported
<b>Hypothesis 4a:</b> State ownership negatively correlates to the sensitivity of the link between firm performance and CEO turnover.	Weak supported
<b>Hypothesis 1e:</b> The presence of institutional shareholders increases the likelihood of CEO turnover in listed enterprises.	Weak supported
<b>Hypothesis 4b:</b> The sensitivity of the link between firm performance and CEO turnover is strengthened by the presence of institutions as large shareholders in Vietnamese-listed enterprises.	Weak supported
<b>Hypothesis 1f:</b> Individual shareholding except CEO ownership has a correlation with CEO turnover.	Weak supported
<b>Hypothesis 4c:</b> Large individual shareholding strengthens the sensitiveness between firm performance and CEO turnover in listed enterprises.	Weak supported
<b>Hypothesis 1g:</b> Ownership concentration positively relate to CEO turnover in Vietnamese-listed enterprises.	Weak supported
<b>Hypothesis 4d:</b> The level of concentration in ownership strengthens the sensitivity of CEO turnover to firm performance.	Weak supported

Together with the hypotheses 1b and 1c, the hypotheses 1d-g which relate to the effects of ownership structure on CEO turnover are weakly supported. In detail, it is expected that the presence of large non-state shareholders including non-state institutions,

companies, and individuals has a positive relationship with the increase in the likelihood of CEO dismissals when firms experience poor performance. Nevertheless, the results of all the analysis provide weak evidence to support these positive effects of the non-state shareholders in Vietnamese-listed firms. It is the fact that non-state sector in Vietnam lacks experience in management and is less developed than state sector (Bui, 2006). Therefore, their ability in managing CEO is weaker than in SOEs, even though their attempts in pursuing the economic objective might be greater. Indeed, the either insignificant or significant negative correlations between non-state shareholders and firm performance are found in the correlation analysis of this study. These proved the assessment above. Furthermore, it supported the results on the effects of non-state shareholders on the sensitivities of the link between firm performance and CEO turnover. Since the shareholders attempt to pursue the economic objective and pay more attention on firm performance, their effects on the link between firm performance and poor performance CEOs are positive. However, the lack of abilities in management has created insignificant effects as reported in this study. The results are consistent with the finding of Barberis et al. (1996) and Gibson (2003) which is that large private shareholders have an unclear role on improving firm performance and corporate governance.

Regarding the large number of SOEs in Vietnamese economy, the effects of large state shareholding on the likelihood of CEO turnover are also considered in this study. However, the expectation indicated in the hypotheses related to state shareholding is weakly supported. Especially, their effects of state shareholding are mixed. For example, the presence of large state shareholding has a positive relationship with the probability of CEO turnover by applying earnings per share and return on assets' ratios. Meanwhile, inverse influences are found under the implementation of profit margin's ratios. The reason for positive influences is that state shareholders are also pursuing economic objectives since firms have been listed. In particular, state shareholders normally try to expand their firm sizes by increasing the proportion of shares or total assets after being listed. Thereby, they pay more attention to accounting ratios based on earnings per share and return on assets rather than increasing the ability in managing expenditure to gain greater profit. This explains inverse influences of the large state shareholder on firm performance. Besides, it explains that state shareholders are more

likely dismiss CEOs having poor performance by considering earnings per share and return on assets' ratios. Meanwhile, the probability of CEO replacement is weakened when applying profit margin's ratios to make a replacement decision. Together, Freeman and Nguyen (2006) and Tran et al. (2007) suggest that state shareholders are normally represented by individuals whose supervision function is considered less responsible than real shareholders. Therefore, it weakens the effects of state shareholders on CEO turnover as well as the influences on the link between firm performance and CEO turnover.

Together with ownership types, the hypotheses related to ownership concentration are weakly supported. Although the signs of ownership concentration support that ownership concentration has negative relations on the probability of CEO turnover, the relationships are insignificant. Since the mean value of ownership concentration in this study is 0.1826, it can be understood that there is normally only one large shareholder in Vietnamese-listed firms. Thereby, the effects of ownership concentration depend on the type of the large shareholder as suggested by Kaplan and Minton (2012). Nevertheless, the influences of large shareholders have reported with insignificant relationship to both CEO turnover and the link between firm performance and CEO turnover. This explains the insignificance of ownership concentration on both the possibility of CEO turnover and the sensitivities of the link between firm performance and CEO turnover in this study.

#### **7.4.2. Board Characteristics**

Board size is the first characteristic which is reported to have insignificant correlation with the possibility of CEO turnover even though its signs in logistics regression are negative. Hence, the hypothesis that board size has a negative relationship with CEO turnover in Vietnamese enterprises lacks evidence. Compared to the prior studies, there is a lack of support to point out significant effects of board size on CEO turnover. Most prior studies have indicated that a large board might increase the ability of monitoring CEOs. For example, Parrino and Weisback (1999) suggested that the board of directors may become less cohesive as the size of the board increases. Besides, Yermack (1996) stated that CEOs are more likely to be dismissed by smaller boards following periods of



poor performance. However, Franks et al. (2001), in comparing the results of CEO turnover under the effects of board size in the UK and the US, indicated that the significant role of board size depends on the disciplinary function rather than the supervisory function. Thereby, the effects of board size on CEO turnover in UK firms are insignificant compared to US firms, since UK boards do not have the disciplinary function. Regarding this suggestion, a board of directors in Vietnamese firms (BOM) has the absence of disciplinary function. Indeed, the decision of CEO dismissal is normally made by general meeting of shareholder. The BOM performs management and advisory function to provide information for the meeting of shareholders. Therefore, the size of board has insignificant relationship with the probability of CEO turnover. Also, the function of the board explains the result of the hypothesis 2b which indicated a significant relationship between the percentage of outsiders on the board and the likelihood of CEO turnover. Since the board has to fulfil the advisory function and to provide information to general meeting of shareholders, outsiders are considered as independent directors who would report independently to shareholders about the real performance of a CEO rather than other directors. Thus, with more independent directors on a board this is believed to provide more reality and relative reports to judge the performance of CEOs.

**Table 7-9: Summary of Hypotheses on Board Characteristics**

Hypotheses	Result
<b>Hypothesis 2a:</b> Board size has a negative relationship with CEO turnover in Vietnamese enterprises.	Weak supported
<b>Hypothesis 2b:</b> The number of independent directors on the board increases the likelihood of CEO turnover in Vietnamese enterprises.	Supported
<b>Hypothesis 2c:</b> The likelihood of CEO turnover is decreased by CEO duality in Vietnamese-listed enterprises.	Supported
<b>Hypothesis 4e:</b> The percentage of outside directors will strengthen the sensitivity of CEO turnover to firm performance.	Weak supported

Together, the correlation analysis has pointed out that the percentage of outsiders on board negatively correlates to the duality of CEO. In fact, the independence of a board which is created by outsiders might be decreased by CEO duality. A CEO who is also a chairman of the board might provide less relative and relative information to general meeting of shareholders. By doing so, the decision of CEO dismissal might be affected. Therefore, CEO duality is reported to have negative influence on the probability of CEO turnover. However, the effect is reduced when CEOs reach to the ages between 59-61 years old.

As mentioned above, outsiders are considered as independent reporters on boards. Besides, this study defined outsiders as directors who are not incumbent or previous managers of firm. Therefore, the independent directors have less effect on managing CEOs as well as on firm performance. These characteristics of outsiders have proved their insignificant influences on the sensitivities of the link between firm performance and CEO turnover.

#### **7.4.3. CEO Characteristics**

Concerning the results of hypotheses related to CEO characteristics, the hypothesis on CEO age is strongly and inversely supported. In particular, young CEOs are less likely to be dismissed than old ones. Moreover, the probability of CEO turnover increases when CEOs are getting to the ages between 51-61 years. As a result, young CEOs who are appointed in Vietnamese enterprises are normally more highly qualified than old CEOs who are appointed based on the assessment of experience. Besides, young CEOs are expected to provide a long-term effort rather than old CEOs who are less likely to initiate strategic change and tend to be more conservative (Stevens, Beyer and Trice 1978; Wiersema and Bantel 1992). In fact, both SOEs and non-state enterprises in Vietnam are willing to appoint young CEOs on a board to achieve and increase the effectiveness of long-term objectives rather than aged CEOs, whereas older CEOs might be dismissed or promoted to be chairman in order to increase the ability of management CEOs and the advisory function. Regarding these facts, it supports the opposite direction of the hypothesis 3a. Nevertheless, the tenure of CEO has no significant relationship to CEO turnover. Tenure is considered as the proxy of CEO experience

rather than the power of CEO (Morck, Shleifer, and Vishny, 1988). Besides, CEOs with long tenure are considered as matched CEOs in following the hazard theory (Allgood and Farrell, 2003; Brookman and Thistle, 2009). Thereby, those CEOs might be promoted to chair of board in regarding the facts in Vietnamese enterprises mentioned above. However, it is infrequently that long tenure CEOs are promoted and therefore the correlation between CEO tenure and the likelihood of CEO replacement is insignificant.

**Table 7-10: Summary of Hypotheses on CEO Characteristics**

Hypotheses	Result
Hypothesis 3a: The likelihood of CEO turnover is higher in Vietnamese-listed firms having younger CEOs.	Inversely Supported
Hypothesis 3b: CEO tenure has negative relation to CEO turnover in Vietnamese-listed enterprises.	Weak supported
Hypothesis 3c: CEO ownership has negative correlation to CEO turnover in Vietnamese enterprises.	Weak supported
Hypothesis 4f: CEO turnover-performance sensitivities are weaker for listed enterprises in which CEOs are holding common stock of these enterprises.	Supported

Among CEO characteristics, CEO ownership is an important characteristic which has received a large number of studies on its relationship with the possibility of CEO turnover. Indeed, CEO ownership reflects CEO power and CEO intensive in pursuing better firm performances, and it, therefore, is expected to have positive correlation to the probability of CEO replacement. However, the result points out that there is insignificant correlation between CEO ownership and CEO turnover. Since CEO ownership in Vietnamese enterprises is normally under 5% threshold of firm shares, the power and intensive of CEOs are unclear. Also, the correlation between CEO ownership and the probability of CEO replacement is unclear. Indeed, over 84% of the observations in this sample are when CEO ownership is under 5%. Therefore, there is a lack of evidence to confirm the hypothesis 3c. However, the literature suggested that CEOs holding 5% threshold are reported to have positive correlation with firm performance (Dahya, Lonie and Power, 1998; Core et al., 1999). Thereby the

sensitivities of firm performance to CEO turnover are less when CEOs hold 5% threshold of firm shares (Morck et al., 1988; Denis, et al., 1997; Denis, Denis and Sarin, 1997). Hence, the result of hypothesis 4f is consistent with the assessment of the prior studies when CEO ownership reaches to 5% threshold of firm shares.

**CHAPTER EIGHT: CONCLUSION AND FURTHER STUDIES**

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## 8.1. CONCLUSION

In conclusion, the aims of this study, which are to investigate the determinants of CEO turnover and to evaluate the link between CEO turnover and firm performance, are fulfilled. In particular, there are several factors which influence the probability of CEO turnover in Vietnamese-listed enterprises. Among these factors, firm performance is reported with significant effects on the possibility of CEO dismissal. Similarly, independent directors, CEO duality and CEO age have strong influences on the probability of CEO turnover. Meanwhile, other factors such as ownership structure, CEO ownership, CEO tenure, firm size, board size, and firm leverage have no significant correlation to the probability of CEO turnover. Besides, this study found that the sensitivity of CEO turnover to firm performance is weakened when CEOs hold 5% threshold of firm shares. Nevertheless, other factors have statistically insignificant influences on the sensitivities of the link between CEO turnover and firm performance.

Along with the pursuit of fulfilling the aim of this study, other findings have provided a general picture of Vietnamese-listed enterprises. In particular, by examining 156 listed firms at the end of December, 2006 in Hanoi and HoChiMinh Securities Centres during the period 2006-2010, this study conducted 780 firm-year observations. Based on the description statistics of the 156 listed, this study found that the largest shareholder in Vietnamese-listed enterprises is commonly a state shareholder. However, the existence of non-state shareholders is still small compared to the majority of state shareholders. As a result, the development of non-state enterprises is unequal to the development of SOEs. Moreover, the percentage of shares belonging to individual shareholders in SOEs is normally small, under 20% threshold. Also, the presence of non-state shareholders in SOEs is infrequent. It reveals that listed firms normally rely on one type of ownerships. It also explained that there is uneven ownership concentration among Vietnamese-listed firms, even though the average level of ownership concentration is modestly concentrated. In fact, firms with the presence of state shareholders have a higher level of ownership concentration than other firms with the presence of non-state large shareholders. Together, boards of directors (Board of Management) in Vietnamese-listed firms are normally made up of five or six directors. In addition, the number of independent directors is around 1/3 of the total number of directors. Compared to

boards of directors in other countries, boards of directors in Vietnamese firms is smaller than in the U.K, the U.S, and China. However, the percentage of CEO duality is reported to be higher than in Chinese firms. Since CEO and chair position are normally one person in a firm which has a majority of shareholding belonging to individuals. Meanwhile, SOEs and large non-state shareholders attempt to separate the two positions.

Based on the 156 listed firms, this study also reported 88 (11.28%) events of CEO turnover. In addition, the number of CEO turnover events occurred increasingly in the last three years of the observed period. Besides, CEO turnover normally occurred in the second half of fiscal years. Moreover, the average age of CEOs in Vietnamese-listed firms is 50 years old and the normal tenure in Vietnamese enterprises is 5 years. Moreover, large institutional shareholders are likely to appoint a young CEO than other types of ownership. Besides, tenure of CEOs in firms which have the presence of large state shareholder is longer than other firms. Meanwhile, CEOs in firms having a higher percentage of outsiders on board and a smaller size of board, have shorter time in position and are younger than in other firms. In comparing to other countries, CEO tenure in Vietnamese firms is shorter than firms in the U.K and the U.S. Moreover, the important characteristic of CEOs is their ownership. In fact, CEO ownership in Vietnamese-listed enterprises is normally under 5% threshold of firm shares. This situation is the same as in other countries reported by previous studies. For instance, Bhagat and Bolton (2008) reported that CEOs in U.S firms are holding around 2.92% of firm shares on average, whereas, Coles et al. (2008) provided that the percentage of shares owned by CEOs in UK firms is around 1.85%.

In accordance to the collected data on Vietnamese-listed enterprises above, this study has provided various findings on the probability of CEO turnover. In particular, firm performance is the core determinant of CEO turnover. CEOs in Vietnamese-listed firm have to fulfil the economic objective in order to reduce the possibility of dismissal. This finding is consistent with the findings in the studies of Denis and Denis (1995), Huson et al. (2001), Kato and Long (2006a, b) and Firth et al. (2006). Meanwhile, the presence of large shareholders has no significant relationship with the probability of CEO turnover. Even though there are the large SOEs in this study's sample, the effects of

large state shareholders on CEO turnover are unclear. It is argued that state shareholders also attempt to fulfil economic objectives such as expanding the firm size or increasing profitability. However, the proportion of state shareholding is normally presented by individuals, who are considered as unreal shareholders, and their attempts, therefore, might be weakened (Freeman and Nguyen, 2006; and Tran et al., 2007). Consequently, the finding of the influence of state ownership on the likelihood of CEO dismissal in this study is similar to finding of Chi and Wang (2009), but the influence is insignificant. Similarly, large non-state shareholders also insignificantly correlate to the likelihood of CEO turnover in Vietnamese firms. As a result, the non-state shareholders which include non-state institutions, companies and individuals in Vietnam have a lack of experiences in management and are in a lower stage of development than the state sector (Bui, 2006). Hence, their ability to manage CEOs is weaker than SOEs, even though their attempts in pursuing the economic objectives might be greater. These findings are consistent with the finding of Barberis et al. (1996) and Gibson (2003) which is that large private shareholders have an unclear role on improving firm performance and corporate governance. As the ability of both state and non-state shareholders is weak, their influences on the sensitivities of firm performance-CEO turnover are no significant. Also, it reduces the significance of the influences of ownership concentration on CEO turnover and the link between CEO turnover and firm performance. Since ownership concentration reflects the power of the largest shareholder, the influence of ownership depends on the largest shareholder (Kaplan and Minton, 2012)

As defined independent directors are defined as outsiders who are not current or former employees of the firm, and not closely associated with the firm by having business dealings with the firm such as lawyers, bankers, consultants, or investment bankers, independent directors in this study are considered as independent reporters rather than managers. Hence, the independent directors have less effect on managing CEOs as well as firm performance. Therefore, these characteristics of outsiders have proved their insignificant influence of outsiders on the sensitivities of the link between firm performance and CEO turnover. However, independent directors positively correlate to the likelihood of CEO turnover, since they seem to provide more reality and relevant reports to the general meeting of shareholders which would judge and make the decision



of CEO dismissal. This finding is consistent with the studies of Hermalin and Weisbach (1988), Brunello, Graziano, and Parigi (2003) and Hwang and Kim (2009).

In examining the influence of CEO ownership which presents CEO power and CEO incentive to pursue better firm performance, it is found to have insignificant correlation to the likelihood of CEO dismissal, although CEO ownership has negative effects. Since CEOs in Vietnamese-listed enterprises normally hold under 5% firm shares, their power is unclear and the influence of CEO ownership on the probability of CEO dismissal is insignificant. The similar result is also found in the studies of Denis, et al. (1997) and Dedman (2003) which reported insignificant relationship between CEO ownership and the probability of CEO dismissal. Although CEO ownership has insignificant relation to the probability of CEO dismissal, its effects on firm performance are suggested by several studies such as Dahya et al. (1998) and Core et al. (1999). Regarding this suggestion, the result of this study also provides significant influences of CEOs holding 5% threshold of firm shares on the link between firm performance and CEO turnover following firm performance measured by earning per shares and return on assets. These findings are the same as the findings of Morck et al. (1988), Denis, et al. (1997) and Denis, Denis and Sarin (1997).

Regarding other determinants of CEO turnover, firm size and firm leverage have no significant correlations with the probability of CEO turnover. Indeed, the finding on firm size is consistent with the studies of Offenberg (2009) and Weisbach (1988). Meanwhile, firm leverage of Vietnamese-listed enterprises is reported at a normal rate, and it, hence, is considered as a control factor in researching the likelihood of CEO dismissal (Adams and Mansi, 2009). Similar to firm leverage, board size is reported to have no significant correlation to CEO turnover. As Parrino and Weisback (1999) suggested, the board of directors may become less cohesive as the size of the board increases. Regarding the independence of the board, CEO duality is the factor that is believed to decrease the independence. In fact, this study found that CEO duality has negative correlation to the likelihood of CEO turnover. It confirmed the findings of Jensen (1993), Coles and Hesterly (2000) and Goyal and Park (2002). However, the correlation is decreased when CEOs reach the ages between 59-61 years old. As a result, CEO age has positive correlation to CEO turnover. It means that aged CEOs are

more likely to be dismissed than young CEOs for poor performance. The results are consistent with the findings of Murphy and Zimmerman (1993), and Huson et al. (2004). Along with other CEO characteristics, CEO tenure has no significant correlation to CEO replacement, since tenure is considered as the proxy of CEO experience rather than the power of CEO (Morck, Shleifer, and Vishny, 1988). Thereby, the experience of CEO is considered to have less relationship with CEO turnover. It is similarly reported by Allgood and Farrell, (2003)

## **8.2. CONTRIBUTIONS OF RESEARCH**

Based on the empirical findings of this study, this section provides implications to both theory and practices.

### **8.2.1. Contribution to theory**

In fact, the Vietnam economy lacks significant investor protection and a functioning capital market and is subject to extensive government control and influence (Tran et al., 2007, Bui and Nuno, 2008). Thereby, it is argued that the agency problem could occur under this environment (Volpin, 2002). Therefore, by exploring the disciplinary function one is able to distinguish the internal corporate governance (Cai and Chen 2004; Kato and Long, 2006a).

In comparing to a numerous number of studies on CEO turnover undertaken in developed countries, this study has brought out evidence from Vietnam which is one of the transition countries. In particular, this study confirmed the role of firm performance in making the decision of CEO dismissal. In accordance to previous studies such as Groves et al. (1995), Aivazian et al. (2005), Firth et al. (2006) and Kato and Long (2006a, b), the presence of state ownership weakens the disciplinary function. However, this study found insignificant mixed effects of large state shareholders on the likelihood of CEO turnover. It is argued that state shareholders also attempt to fulfil economic objectives and CEOs, therefore, are under pressure to gain a good performance. The insignificant effects of state ownership might be created by the “agents” who present the share proportion belonging to state or SOEs. Indeed, Hu and Leung (2010) examined the role of state ownership in Chinese-listed firms and reported that the sensitivities of

the link between CEO turnover and firm performance is strengthened when state share proportions belong directly to the Central Government or a local government rather than SOEs. Together with state ownership, this study reveals that large non-state shareholders in Vietnamese-listed enterprises have insignificant relationship with CEO turnover. This supports the findings of Barberis et al. (1996) and Gibson (2003) who indicated the insignificant role of private shareholders in transition countries. Besides, this study provides evidence to compare to the studies on the effects of institutional shareholders on the probability of CEO turnover. For example, Dahya and Power (1998), and Huson et al. (2001) reported no significant relationship between institutional shareholders and CEO dismissal.

Moreover, the findings of this study contribute the role of independent directors to the literature on CEO turnover. Indeed, the prior studies have considered independent directors as a factor which increases the independence of the board and the efficiency of monitoring CEOs (Fredrickson, Hambrick, and Baumrin, 1988). Although the studies such as Hermalin and Weisbach (1991), Klein (1998), and Bhagat and Black (2000) found no significant correlation between accounting performance and the percentage of outside directors, the inverse result is found by Hermalin and Weisbach (1988), Brunello, Graziano, and Parigi (2003), Bushman, Dai and Wang (2010) and Hwang and Kim (2009). Regarding this fact, this study provides the result that independent directors are a key factor which increases the likelihood of CEO turnover. However, this study found insignificant influences of independent directors on firm performance. This supports the finding of Kato and Long (2006b) who found that independent directors have insignificant influences on the sensitivities of the link firm performance-turnover in measuring firm performance by accounting proxies.

In considering CEO ownership, this study contributes to the literature on the relationship of CEO ownership with the link between firm performance and CEO turnover by a significant correlation following firm performance measured by earnings per share and firm performance. It supports the assessments of Denis, Denis, and Sarin (1997), Dahya, Lonie and Power (1998) and Core et al. (1999) which are that a firm having a CEO holding firm shares may less need for disciplinary action since the CEO often try to have a better performance. However, the effects are insignificant when

CEOs own less than 5% firm shares. This differs from the findings of Gilson (1989) and Dedman (2003) who examined the ownership of CEOs at 10% and 1% firm shares.

Among control variables which are firm size, firm leverage, board size, CEO age, CEO tenure and CEO duality, CEO age and CEO duality have provided important results. In particular, aged CEOs in Vietnamese-listed enterprises are more likely to be dismissed than young CEOs. Furthermore, the probability of turnover increases at the ages between 59-61 years old. This age group also weakens the significance of negative correlation of CEO duality with the likelihood of CEO turnover. As a result, shareholders in Vietnamese firms expected that young CEOs are more active and could provide long-term efforts than aged CEOs. The finding is different with the studies of Kato and Long (2006a, b) and Firth et al. (2006) who examined CEO turnover in China and found no significant correlation between CEO turnover and CEO age. Besides, it has inverse result with the study of Jensen and Murphy (1990). However, it supports the finding of Murphy and Zimmerman (1993).

Practically, it is believed that a weak internal corporate governance system can be evaluated via the internal disciplinary mechanism. When there is a lack of effective market for corporate governance, it weakens the internal corporate governance. Thus, this can lead to the agency problem occur in Vietnamese enterprises (Volpin, 2002). Hence, together with the evaluation of the link between CEO turnover and firm performance, this paper discusses how the monitoring functions provided by the two-tier board corporate governance structure influences CEO turnover and the firm performance. The debates on ownership structure in Vietnamese enterprises reveal the current corporate governance practices in Vietnam. Based on these evaluations, this study will provide new insights into how agency problems play out in a transitional economy.

### **8.2.2. Contribution to practice**

By discussing the determinants of CEO turnover, the internal corporate governance system in Vietnamese-listed enterprises is examined. In fact, there are several differences to other countries in terms of corporate governance in Vietnam. For example, Vietnamese-listed enterprises apply two-tier board systems which are also

applying in China, Germany and France. However, there is a absence of some important functions in those boards. Since BOM in Vietnamese-listed enterprises are considered as similar to a board of directors in a one-tier board system, the disciplinary function of the board should under the control of BOM. Nevertheless, BOM, in fact, has management, reporting and advisory functions, whereas the supervisory function is belonging to the Control Board. Thereby BOM seems less independent as being similar to managers of firms. Meanwhile, members of the Control Board are normally firm's current employees. Consequently, the independence of boards in Vietnamese-listed enterprises is weak. According to the finding of this study, the independent directors demonstrate the key role in the decision of CEO dismissal. Furthermore, it pointed out that the independence of boards is stronger when the percentage of outsider reaches to 0.40 (40% of directors). Based on this finding, it is suggested that Vietnamese-listed enterprises should consider appointing independent directors on the board in order to ensure that shareholders receive reality and relevant reports from the board.

Along with this, the insignificant influence of large state shareholders has led to an assessment that the "agents" representing on behalf of the state in firms are considered as unreal shareholders. Since the agent might pursue multi-objectives, they have less intensive in pursuing the efficiency of firm operating. Thereby, they cause insignificant influence of state ownership on firms. Regarding this fact, the Vietnamese Government needs to pay attention on appointing the persons who represent state ownership and supervise the operating performance of firms in which the state has ownership. Besides, other types of shareholding need to be aware of their roles in monitoring CEOs and enhancing corporate governance in order to protect their values.

As mentioned above, CEOs holding 5% threshold of firm shares are more likely to act as a large shareholder and to pursue the efficiency of firm performance. Besides, CEOs who hold 5% threshold of firm shares strengthens the link between firm performance and CEO turnover. It may be considered to appoint a shareholder holding 5% threshold of firm shares to CEO position. By doing so, it could increase the efforts of CEOs and enhance the corporate governance. However, it is suggested that the relationship between CEO ownership and the percentage of outsider on the board is negative. Therefore, Vietnamese-listed enterprises need to consider this fact and provide a

balance between CEO ownership and the independence of the board in order to gain a better corporate governance system.

### **8.2.3. Contribution to Methodology**

In terms of methodology, this study firstly contributes to methodology in measuring the performance in transition countries. In particular, it confirms that return on assets and profit margin are two of firm performance's proxies which implemented by several studies such as Firth et al. (2006), Kato and Long (2006a, b), Chi and Wang (2009), Liao et al. (2009), and Wang (2010), are able to provide relative performances of listed firms. Besides, this study has applied proxies based on earnings per share to measure the performance of Vietnamese-listed enterprises. Although these proxies are seldom used in prior studies, they are believed to provide other insights on listed firms' performance in transition countries regarding the absence or the limitation of the stock market.

The second contribution to methodology is the measure of the independence of the board of directors. Indeed, the independence is measured by the percentage of independent directors on the board. According to the Enterprises Law 2005 in Vietnam, independent directors or outsiders are normally considered as non-executive directors on the board. However, the literature has suggested a variety of definition on who are independent directors. For example, Hermalin and Weisbach (1988) classified independent directors as directors who did not work full-time for the corporation. Meanwhile, Beasley (1996), Fahlenbrach et al. (2010), and Ertugrul and Krishnan (2011) classified outsiders as directors who are not currently employed by the firm. Meanwhile, Hwang and Kim (2009) provided classification of independent directors which is deeper than other studies. In particular, independent directors are classified as a people who are both socially and conventionally independent. Based on this suggestion, this study has provided a new classification of independent directors in order to applying in Vietnam. The classification enables one to overcome the limitation of discourse information in a transition country. Particularly, this study classified independent directors as directors who are not current or former employees of the firm,

and not closely associated with the firm by having business dealing with the firm such as lawyers, bankers, consultants, or investment bankers.

Thirdly, this study implemented a similar methodology as Denis, Denis, and Sarin (1997), Dahya, Lonie and Power (1998), and Brunello et al. (2003) to measure the effects of CEO ownership in Vietnamese-listed firms. In fact, the shareholding proportion of CEOs in Vietnamese-listed enterprises is normally under 5%. Besides, Brunello et al. (2003) and Kim and Lu (2011) suggested that individuals, especially CEOs, who hold 5% threshold of firm shares are more likely to act as a blockholder. By applying the methodology, it has revealed that CEO ownership which presents CEO power has significant influence on the link between firm performance and CEO turnover. Therefore, the methodology is believed to provide relative assessments on CEO power when a CEO holds 5% threshold of firm shares in transition countries.

The last contribution to methodology is following the measure of CEO age in this study. In fact, there are two major designations for CEO age variable which are a dummy variable (Huson et al., 2001; Goyal and Park, 2002; Berry et al., 2006; Coles et al., 2008) and the age of CEO at the observed time (DeFond and Park, 2001; Bhagat and Bolton, 2008; Ertugrul and Krishnan, 2011). However, this study applied a continuous variable to measure CEO age regarding the facts in Vietnam and the absence of CEO turnover's reasons. In fact, the methodology did reveal the effects of CEO age on the probability of CEO turnover in Vietnamese-listed enterprises. Besides, the robustness check has confirmed this result by adding a dummy variable of CEO ages. By adding the dummy variable of CEO ages, this study found out that implementation of both dummy and continuous variables to measure CEO turnover could help to distinguish the increase in the likelihood of CEO turnover at a certain age regarding the absence of CEO turnover's reasons. Indeed, the methodology has been applied in examining the effects of CEO age on the likelihood of CEO turnover in developed countries by Murphy and Zimmerman (1993), Farrell and Whidbee (2003) and Linck et al. (2008). Therefore, the methodology applied in this study of CEO dismissal can be used in studying CEO dismissal in other transition countries.

### 8.3. LIMITATIONS

First of all, the study relied on disclosure information so the quality of information depended on the quality of the data sources. This means that it is difficult to identify incorrect or fraudulent of information.

Secondly, this study is unable to address the reason for CEO turnover regarding the disclosure of information by firms, which might limit the different effects of CEO determinants following different reasons of turnover. It also fails to cover the effects of different circumstances on CEO turnover in Vietnamese-listed enterprises, such as the difference between voluntary and forced CEO turnover, acquisition and takeover, and normal retirement.

The third shortcoming of this study is the absence of implementation of other performance measures such as market performance or social measures. As a result, literature suggested that non-state shareholders may pay more attention on firm performance measured by market-based proxies than accounting-based proxies, whereas state shareholders are seen to be also concerned with the social performance of firms.

Along with the absence of implementation of other performance measures, this study attempted to adjust the differences in firm performance among different industries since the sample contains a wide range of industries. However, the study fails to address the effects of differences among industries on CEO turnover. For example, the length of time spent holding a CEO position or the age of CEO in different industries may differ and might have different effects on CEO turnover.

By using both current performance and average performance of the previous and current periods, this study can explain the time lags of CEO turnover decisions related to firm performance. However, the effects of other factors might be seen after a long time. For example, the impact of CEOs' decision on performance may not be felt for more than one year, while the performance of firm might be affected after a CEO is replaced.

The sixth limitation is that the effects of foreign shareholders were not addressed in this study regarding the fact that the presence of foreign investors in Vietnam is infrequent.



However, the type of ownership might have different influences on the probability of CEO turnover. Furthermore, the difference among types of state shareholders is ignored in this study. Thus, it is unable to examine whether different types of state shareholders have different influences on the probability of CEO turnover or not.

Also, the total proportions of shares held by different types of shareholders cannot be gathered. Hence, applying dummy variables to present types of shareholders might fail to address the quantitative change in the proportion of shares following different types of shareholders.

Lastly, the sample of this study is based on a non-probability sampling method which is judgemental sampling. Besides, the sample size is considered as small with 780 firm-year observations. Thereby, it is argued that it is difficult to generalize the findings of this study.

#### **8.4. SUGGESTION FOR FURTHER STUDIES**

Regarding the limitations addressed above, the suggestions for further studies are indicated. For instance, better results on CEO turnover can be gained by addressing the reason for CEO turnover. This could distinguish the key factors which influence voluntary and forced CEO turnover in Vietnamese-listed enterprises, meaning the determinants of CEO turnover may provide more relevant results.

A better classification of state ownerships could be applied in order to provide a deeper insight of the influences of state ownerships on either CEO turnover or the corporate governance system in Vietnamese-listed enterprises. Similarly, including foreign ownership in the ownership structure variables may help to show the current situation of foreign investment in Vietnamese-listed enterprises and the effects of foreign investors on the corporate governance system. Along with these, the influences of different ownership types could be addressed clearly by applying continuous variables instead of dummy variables. However, the task is how to gather the information of the total proportions shares belonging to different ownership types.

Furthermore, implementation of market-based measures of firm performance or other performance of firms can address the different changes in the probability of CEO turnover determinants. As a result, different types of ownership may lead to different measures of firm performance.

Further studies would examine the influence of the Control Board on CEO turnover and the link between CEO turnover-performance, since this has not been done in this study. Also, it is suggested that the relationship between the qualification of directors (on either boards of directors or Control Boards), firm performance and disciplinary function be examined. This would bring out more evidence related to the effectiveness of the two-tier board system employed by Vietnamese-listed enterprises.

In total, this study has observed 156 listed firms to the end of December, 2006 during the period 2006-2010 and has conducted 780 firm-year observations for examination. Indeed, there is no doubt that the sample of this study is small regarding the time limitation and sampling method. Therefore, further studies could use a large sample and observe different periods in order to provide evidence on the probability of CEO turnover.

With regard to the differences among a wide range of industries, further studies would concentrate on one or more specific industries and bring out more relevant findings on CEO turnover and how it is linked to firm performance in Vietnam.

Lastly, the motivations of the CEO and factors which have influence on the performance of firms would be considered in further studies. This is because CEOs today have differing objectives and might be less focussed on improving the performance of their firms. Hence, the link between CEO turnover and firm performance might vary when CEOs pursue other objectives.

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