FOREIGN DIRECTORS AND FIRM PERFORMANCE: A STUDY IN VIETNAM

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Abstract - Having foreign directors on board has both positive and negative sides while the overall effect of the foreign directors on firm performance is still inconclusive in literature. In this paper, we examine the relation between foreign directors and firm performance measured by return on assets in Vietnam. Using a sample of 175 firms with 955 observations from 2013 to 2019, we find that having foreign directors on board who have better expertise, experience, and networks is positively related to firm performance. However, employing additional foreign directors generally does not bring more benefits due to more misunderstandings and slower decision making, except when all foreign directors are from similar economic development backgrounds. The results contribute to inconclusive literature by adding more understandings of the context in which the foreign directors have an positive impact positively on firm performance. The findings also have practical implications for recruiting foreign directors in Vietnamese firms.

Key words - Foreign directors; firm performance; board of directors; board diversity; board foreignness

1. Introduction

A board of directors with two major functions, that are monitoring role and the advisory role is a crucial element in a firm's corporate governance and thus it is a fundamental determinant of firm performance. Backed by the upper echelons theory which states that managers' and directors' traits and values affect their interpretation of strategic problems, in turn, affect decision-making [1], [2], research on board diversity and its influence on a range of firm measures relating to performance is one of the topics most commonly addressed in the corporate governance literature [3]. This has led to numerous research of board dimensions such as the board size, independent directors, board gender, CEO duality, ethnicity, nationality, education, experience, or the frequency of board meetings [4]-[6], among many others.

Nowadays, corporate boards of directors have become more and more international due to globalization, the borders of business world began to disappear and people from different cultures began to be in much closer connection. For example, Barrios et al. find that on average from 38 countries, foreign directors represent five percent of all corporate directors worldwide, ranging from 30% in Luxemburg to only 2% in US [7]. Having foreign directors on board who are from different backgrounds, can bring many benefits as well as costs to firms and thus has an impact on firm performance. Foreign directors can have networks, expertise and hence providing good strategic direction [8]-[12] They also have connection with human and capital market, in turn, improve its financial performance [13]. In addition, appointing outside directors from countries with stronger investor protection can improve board monitoring and overall corporate governance [14]. However, foreign directors on the board may bring costs. The disadvantages of diversity are related to affective conflict which is harmful to individual and group-performance, member satisfaction and group cooperation [15]. In culturally diverse groups, communication is slower, more difficult, more confused, and more frequently a variety of misunderstanding [16]. As Kirchmeyer and Cohen claimed, conflict in multicultural teams may be difficult to identify and even more difficult to solve [17].

As having foreign directors has both positive and negative sides, the relation between foreign directors and firm value is still an open question, with inconclusive empirical evidence [18]. Oxelheim & Randøy find a significantly higher firm performance for Scandinavian firms with Anglo-American board member than for other firms [9]. Some other studies also find a similar relation [19]-[21]. Chinese firms' performance increases due to foreign directors' experience and knowledge transfer in management practices and corporate governance [22]. Recently, in US firms, foreign director's rich in appropriate experience has been found to be associated with superior strategic change but the strength of the effect, however, depends on the firm performance [23]. However, Masulis et al. find that foreign independent directors, defined as independent directors domiciled in foreign countries, display poor board meeting attendance records, more commit intentional financial misreporting, overpay their CEOs lower CEO turnover sensitivity to performance, and poorer performance due to geographical distance in US [24]. Similar results in Hahn and Lasfer study that UK firms are increasingly having fewer board meetings mainly because of the significant increase in the proportion of foreign non-executive directors on the board which then is correlated with lower total shareholder returns and are not related to firm value creation [25].

In this paper, we examine the relation between foreign directors and firm performance in Vietnam. We hypothesize that having foreign directors on board is associated with higher firm performance in the context of Vietnam. Our hypothesis is in line with the view that companies from countries with weak investor protection may have benefits from appointing outside directors from countries with stronger investor protection as a way of improving board monitoring and overall corporate governance [14], [26]. In addition, foreign directors, especially from more developed countries may have better expertise in management, better connection with product markets as well as capital markets due to their experience in their home countries and hence improving the capacities to provide useful strategic advice for the firms. Vietnam is a low middle income economy with GDP per capital is about 3500 USD in 2018 (or 3800 USD in 2021) and in the process of transfer from command economy to market economy. The Index of Economic Freedom created by The Heritage Foundation and The Wall Street Journal report that Vietnam is belonged to group of moderately free economies (60–69.9), moved up from mostly unfree country group *only since 2021*. Given this context, Vietnamese companies are in the need to acquire more efficient corporate governance systems in term of better monitoring practices as well as strategic decision-making advice. Therefore, employing foreign directors is expected to increase Vietnamese firms' value. Given this context, Vietnamese companies are in the need to acquire more efficient corporate governance systems and foreign directors may fill this void.

Using a random 955 firm year sample of listed Vietnamese firms from 2013 to 2019, we examine the relationship between board foreignness and firm performance. In this sample, foreign directors account for about 15% of all directors and they are all from more developed economies and stronger investor protection countries such as Japan, Korea, Taiwan, China, Malaysia, US, and others. We find that the having at least one foreign director is positively related to firm performance. The positive relation is stronger when foreign director(s) are all from developed countries. However, the degree of board foreignness measured by the ratio of foreign directors is not related to firm performance, except when degree of board foreignness is measured by the ratio of foreign directors from developed countries. These findings imply that higher proportion of foreign directors tends to be associated with higher firm performance only if they share similar economic development level. Diversity in economic backgrounds may create slower decision making process and more misunderstandings which in turn may impede firm performance.

Our study makes several contributions. Our paper contributes to the debate about the role of foreign directors on firm performance. Specifically, our paper is in the line with the view that expertise, knowledge, and networks of directors from countries with stronger investor protection and higher economic development can improve firm value [14], [19]-[21]. Secondly, our findings that diversity of board members may not bring additional benefits to firms and thus have practical implications for Vietnamese firms and government in designing board member policy.

However, our conclusion may be interpreted with some concerns. Although we have run regressions with firm fixed effect to account for time-invariant unobserved individual characteristics that can be correlated with the presence of foreign directors on board and thus reducing the endogenous problem due to omitted variables, but the endogenous issues due to two-way causal relationship between firm performance and having foreign directors on boards may remain. In addition, similarity in level of economic development in our sample may coincidentally reflect other factors such as cultural factors or legal systems thus further investigation should be conducted in future.

2. Literature review and hypothesis development

2.1. Literature review

A board of directors is a crucial element in a firm's corporate governance, and it has two major functions. One is the monitoring role and the other is the advisory role [27]-[32]. According to agency theory, board of directors monitors the managers and thus reducing the agency conflicts between managers and shareholders [33], [34]. Meanwhile, the resource dependence theory indicates that directors, as a valuable resource, advises managers on important strategic decisions thus contributing to shareholder value creation [35], [8], [13]. Moreover, according to the upper echelons theory, executives' experiences, values, and personalities greatly influence their interpretations of the problems they face and, in turn, affect their decisions [1], [2]. Based on these theories, numerous researches have been focused on board features and diversity such as the board size, the independent directors, board gender, CEO duality, ethnicity, nationality, education, experience or the frequency of board meetings and their effect on firm performance [4]-[6] among many others.

Due to increasing globalisation, corporate boards of directors have become more international. One feature of internationalisation is the more popular appointment of foreign directors on board. For example, Barrios et al. find foreign directors represent five percent of all corporate directors from the sample of 38 countries, varying from 30% in Luxemburg to only 2% in US [7]. Having foreign directors on board who are from different background, can bring many benefits as well as costs to firms. This has led to increasingly research on the role of foreign directors on firm behaviors and firm performance recently. Literature demonstrates that foreign nationals can bring in specific knowledge of their home countries, which may benefit the firms [36]. Cultural difference creates information expansion, offering a diverse range of knowledge and perspectives [37] thus facilitates broader discussions and innovative solutions to firm problems, resulting in higher firm's performance. In addition, foreign directors can have network to markets, expertise and technology, political and social networks [8], [10]-[12] and human and capital market network [8], hence providing good strategic advice. Regarding monitoring role, appointing outside directors from countries with stronger investor protection can improve board monitoring and overall corporate governance [14].

However, having foreign directors on board may associate with higher costs and result in lower firm value. The disadvantages of diversity are related to affective conflict, and thus are harmful to individual and group-performance, member satisfaction and group cooperation [15]. In culturally diverse groups, communication is slower, more difficult, more confused, and more frequently a variety of misunderstanding [38], [16]. As Kirchmeyer and Cohen claimed, conflict in multicultural teams may be difficult to identify and even more difficult to solve [17]. Moreover, Bjørnskov pointed out that cultural diversity could lead to lower levels of intragroup trust [39].

The empirical results of the relation between foreign directors and firm performance are inconclusive. The effect of having outsider foreign directors on firm performance was first tested by Oxelheim & Randøy for firms in Sweden and Norway [14]. They find a significantly higher firm performance for firms with Anglo-American board member than for firms with no outsider foreign directors. Choi, Park, and Yoo find that having foreign directors is associated with better performance in Korean firms [14]. Ameer, Ramli & Zakaria and Peck-Ling et al. also find a similar relation in Malaysian firms [20], [21]. Peck-Ling et al. also state that only when foreign investors have dominant (above 50%) voting rights, ROE increased [21]. Recently, Samara & Yousef found that FDs rich in appropriate experience are associated with superior strategic change but the strength of the effect, however, depends on the firm performance [23].

Meanwhile, Masulis et al. extensively investigate the benefits and costs associated with foreign independent directors (FIDs), defined as independent directors domiciled in foreign countries, at U.S. corporations and find that FIDs also display poor board meeting attendance records, more commit intentional financial misreporting, overpay their CEOs lower CEO turnover sensitivity to performance, and poorer performance due to geographical distance [24]. Similar to Masulis et al., Hahn and Lasfer find that UK firms are increasingly having fewer board meetings mainly because of the significant increase in the proportion of foreign non-executive directors (those listed as non-British in the annual reports) on the board which then is correlated with lower total shareholder returns and are not related to firm value creation [25]. Chinese firms whose performance increases due to foreign directors' experience and knowledge transfer relating to management practices and corporate governance [22].

2.2. Hypothesis development

Given the concomitant benefits and costs associated with foreign directors, their net effect on firm performance is expected to depend on different national contexts. As stated above, having foreign directors on board can be related to affective conflict (an awareness of interpersonal incompatibilities) which may be harmful to individual and group-performance, member satisfaction and group cooperation [17], [15]. In other words, difficulty in communication due to misunderstandings, conflicting views and perspective and geographical distance can weaken corporate governance.

However, we hypothesize that having foreign directors on board is associated with higher firm performance in the context of Vietnam. Companies from countries with weak investor protection may benefit from appointing outside directors from countries with stronger investor protection as a way of improving board monitoring and overall corporate governance. Our hypothesis is consistent with the view of Oxelheim & Randøy, among other studies, argue and find that foreign directors from the Anglo-American system, commonly regarded as the more demanding corporate governance system than that in Scandinavian countries, can improve corporate governance practices for firms [14]. Similarly, Aggarwal et al. find that corporate governance travel from countries with strong shareholder protection to countries with lower shareholder protection by promoting governance improvements though the activism of foreign institutions [26]. In addition, foreign directors from more developed countries may have better expertise in management, better connection with product markets as well as capital markets due to their experience in their home countries and hence improving the capacities to provide useful strategic advice for the firms.

Vietnam is a low middle income economy with GDP per capital is just about 3500 USD in 2018 (or 3800 USD in 2021) and also is a transition economy in process of transfer from command economy to market economy. The Index of Economic Freedom created by The Heritage Foundation and The Wall Street Journal report that Vietnam score 60.6 over 100 (in 2022), belong to group of moderately free economies (60–69.9), moved up from mostly unfree country group *only since 2021*. Given this context, Vietnamese companies are in the need to acquire more efficient corporate governance systems in term of better monitoring practices as well as strategic decision-making advice. Therefore, employing foreign directors is expected to increase Vietnamese firms' value.

Thus, we will address the hypothesis as below:

H1: Having foreign directors has positively associated with firm performance in Vietnam.

H2: Ratio of foreign directors has positively associated with firm performance in Vietnam.

3. Methodology

3.1. Data sources and sample selection

As the data about nationalities of the board members in each company need to be collected by hand so we examine the sample instead of the population. We select randomly 190 firms listed on Hanoi Stock Exchange and Ho Chi Minh Stock Exchange (the list of companies in the sample is provided upon request). After eliminating firms with missing data and those in financial sectors known as banks, funds, and insurance companies, our firm list finally includes 175 listed Vietnamese firms in 2019. Based on this firm sample, we then collect all variables for these 175 firms for the period from 2013 to 2019. Our final sample includes 955 firm year observations (some firms do not exist in several years).

We hand collect the data of the board members using the information on the *vcbs.com* website – a Vietnam's latest economic, financial and stock information channel. This source includes board information for each company such as name, gender, age, and nationality for many directors. Where data on directors are missing, we search through the annual report of each company. For financial data of each company such as firm size, firm age, market value, book value and others, we collect from Finpro Platform database (previously called Stockplus database).

3.2. Variable construction

Adopted the previous papers (such as Oxelheim & Randøy; Masulis et al.), we measure the foreignness of the board by two measures [14], [24]. The first is a dummy variable that is equal to 1 if the board has at least on foreign director (*FD*). The second is the ratio of number of foreign directors to total number of foreign directors *(FD_ratio)*. Firm performance is measured by ROA, which is the ratio of a firm's net profit to total assets. Control variables include firm size (*FirmSize*) measured by logarithm of total assets, firm age (*FirmAge*) measured by logarithm of number of years since incorporation, leverage (*leverage*) measured by ratio of total debts to total assets, sales growth (*SalesGrowth*) measured by percentage increase in sales compared to last year sales, cashflows (*Cashflows*) measured by ratio of cashflows to total assets, and board size (*BoardSize*) measured by the number of directors on board.

A detailed definition and the sources of all these variables and control variables are provided in Appendix 1.

3.3. Model specification

As discussed in the hypotheses section, we expect that foreignness of the board are related to firm performance. To test these hypotheses, we run multivariate regression where firm performance (ROA) is dependent variable, board foreignness (FD or/and FD_ratio) is independent variables controlling for firm and industry factors. As there may be other intrinsic factors that are correlated with the foreignness of the board but are not directly observable or measurable, we take fixed-effect regressions which are designed to address this problem. Specifically, a fixed effects regression is an estimation technique employed in a panel data setting that allows one to control for time-invariant unobserved individual characteristics that can be correlated with the observed independent variables. The equations are as follows:

$$ROA_{it} = \alpha + \beta \times Foreignness_{it} + X_{it}\gamma + f_{it} + \varepsilon_i \quad (1)$$

Where, ROA_{it} is the return on assets of firm i in year t; *Foreignness* is either dummy variable that is equal to one if there is at least one foreign director (*FD*) and/or ratio of foreign directors on board (*FD_ratio)*. We hypothesize that $\beta > 0$.

X is a vector of control variables and *f* captures firm fixed effect. Motivated by the existing firm performance and corporate board studies, we control for a set of firm characteristics including firm size (F*irmSize*), firm age (*FirmAge*), leverage (L*everage*), sales growth (*SalesGrowth*), cashflows C*cashflows*) and board size (*BoardSize*).

4. Results

4.1. Data descriptions

Table 1 reports summary statistics of the variables. There are 36.4% of firms having at least one foreign director (*FD*) and the average proportion of foreign directors across firms accounts for 10.2% on board. Compared with the results by Barrios et al., Vietnam has similar percentage of foreign directors (at about 10%.) to that of Canada and China [7]. This number is higher than the average number-five per cent- of all corporate directors worldwide in Barrios et al.'s 38 country sample. It can be seen that foreign directors are quite popular in Vietnamese firms, and they may have an important role in board's decisions.

Table 1. *Statistics summary*

Variable	Obs	Mean	Min	Max	Mean: *Firms with no FDs*	Mean: *Firm with FDs*
ROA	955	0.06	-1.00	1.58	*0.06*	*0.07*
FD	955	0.36	0.00	1.00	*0.00*	*1.00*
FD_ratio	955	0.10	0.00	0.80	*0.00*	*0.28*
BoardSize	955	6.58	3.00	11.00	*6.41*	*6.87*
FirmSize	955	12.10	10.19	14.61	*11.98*	*12.31*
FirmAge	955	0.84	0.00	1.30	*0.83*	*0.86*
SalesGrowth	955	0.40	-0.95	31.38	*0.38*	*0.43*
Cashflows	955	0.00	-0.56	0.93	*0.01*	*0.00*
Leverage	955	0.48	0.02	1.45	*0.49*	*0.47*

Relating to other board variables, the average board size is 6.58, with a variation from 3 to 11. The mean ROA of all firms is 6%, with a significant difference between firms with and without foreign directors, that are 5% and 7%, respectively. In regard of firm financial characteristics, the average size of firms (log of total assets in million VND) is approximately 12.10; firms with foreign directors (FD) are larger than their counterparts, that are 11.98 and 12.31, respectively. Similarly, firms with FD have larger board, are older, and have higher sales growth rate than those of firms without FD. However, firms with FD have lower leverage and ratio of cashflows to total assets.

Table 2 presents the correlation matrix among variables. Firm performance (*ROA*) is positively correlated board having at least one foreign director (*FD*) and the relation is significant with p_value at 3%. Meanwhile *ROA* is negatively but not significantly related to ratio of foreign directors on board (*FD_ratio*). In term of correlations between foreignness of the board and other control variables, the coefficients are low and thus not posing serious multicollinearity issues in multivariate regressions.

Table 2. *Correlation matrix*

	ROA	FD	FD ratio	BoardSize	FirmSize	FirmAge	SalesGrowth	Cashflows	Leverage
ROA	1.00								
FD	0.07	1.00							
	0.03								
FD share	0.00	0.82	1.00						
	0.96	0.00							
Board Size	0.09	0.13	0.06	1.00					
	0.00	0.00	0.07						
Firm Size	0.05	0.22	0.11	0.33	1.00				
	0.12	0.00	0.00	0.00					
Firm Age	-0.02	0.06	0.05	0.05	0.14	1.00			
	0.58	0.08	0.10	0.10	0.00				
Sales Growth	-0.05	0.01	-0.01	0.01	0.04	-0.05	1.00		
	0.16	0.77	0.85	0.86	0.25	0.14			
Cash flows	0.08	-0.01	-0.02	0.03	0.01	-0.04	0.01	1.00	
	0.01	0.73	0.49	0.43	0.67	0.17	0.81		
Lev	-0.23	-0.04	-0.09	0.00	0.31	0.01	0.00	-0.02	1.00
	0.00	0.20	0.00	0.89	0.00	0.67	0.91	0.60	

4.2. Regression results

Table 3. *The relationship between foreignness of board and firm performance*

VARIABLES	(1) ROA	(2) ROA	(3) ROA
FD	0.024**		0.038**
	(2.05)		(2.15)
FD_ratio		0.030	-0.057
		(0.83)	(-1.04)
FirmSize	0.114***	0.114***	0.113***
	(5.30)	(5.30)	(5.27)
FirmAge	-0.098***	-0.093***	-0.096***
	(-4.03)	(-3.81)	(-3.93)
BoardSize	0.008**	0.008**	0.007**
	(2.30)	(2.55)	(2.25)
SalesGrowth	-0.000	-0.000	-0.000
	(-0.29)	(-0.21)	(-0.30)
Cashflows	0.048*	0.047	0.046
	(1.65)	(1.61)	(1.58)
Leverage	-0.237***	-0.234***	-0.235***
	(-6.64)	(-6.55)	(-6.61)
Observations	955	955	955
R-squared	0.0893	0.0851	0.0906
Number of Firm_code	175	175	175

Table 3 reports the results of firm fixed effect regressions using equation 1 in which ROA is the dependent variable. Column 1 reports the result when only *FD* is used as independent variables while FD_ratio is used in column 2. In column 3, that both FD and FD_ratio are included as explanatory variables. All three equations include firm and board characteristics. Relating to control variables, firm size is positive and significant, suggesting that larger firms achieve higher valuation. This is a common observation in studies on performance in UK firms by Short and Keasey [36]. Leverage and firm age are negative and highly significant, suggesting more leverage and older firms achieve lower outcomes. Otherwise, cashflows and sales growth are not related to *ROA*. Board sizes are all positive but insignificant.

The coefficients of FD are positive and significant at the 5% level in both column 1 and 3. The positive impact of having at least one foreign director the board (*FD*) on ROA indicate that foreign directors can improve firm performance. Firm having at least one foreign director is associated with 2.4% higher in ROA, which has highly economic significance, implying that foreign directors are related with much higher financial performance. These results are consistent with our first hypotheses that in the context of Vietnam, as transition economy, Vietnamese firms need expertise, experience, and networks of foreign directors for making strategic decisions as well as improve monitoring mechanism. Foreign directors in Vietnamese firms are from stronger investor protection countries and more developed countries and thus these directors are likely to possess higher capability of corporate governance due to their education and experience, in turn, increase firm performance. This result is consistent with several previous papers [14], [19]-[21].

The sign of coefficient of FD_ratio is positive in column (2) but turns into negative in column (3) although not significant in both column 2 and 3. Meanwhile, the coefficient of *FD* variable in column (3) remains positive and significant at the level of 5%. In addition, the coefficient increases from 0.024 in column (1) to 0.038 in column (3). The findings in these three columns indicate that firms having at least one foreign director are associated with higher ROA than firms with no foreign directors on board. However, adding more foreign directors into firms that already have foreign directors does not bring additional benefits to firms. Instead of that, adding many more foreign directors in some cases may cause some additional cost due to difference in culture and background can cause slower, more difficult communication, and more frequently a variety of misunderstandings. Our findings do not support for the second hypothesis but in line with the view that board diversity can cause costs [41], [16]. Putnam states that heterogeneity among individuals decreases cooperation and impedes communication [40]. The other papers find that cultural diversity of board members decrease firm values [16], [40].

Theoretically, the positive relationship between firm performance and incidence of foreign directors on board may be the two-way causal relationship. On one way, foreign directors can improve firm performance through their expertise, experience, and networks. On another way, firms with higher profitability have more resources to recruit foreign directors, especially in the context of Vietnam and thus higher performance leads to higher probability and proportion of foreign directors. In this analysis, we are not able to clarify thoroughly the direction of impact because we are not able to find proper instrument to deal with this endogeneity problem. However, our findings tend to support for the former direction. The result that the higher proportion of foreign directors is not related or somewhat negatively related with firms' profitability can not back for the latter direction as the more profitable firms is the higher number of foreign directors that the firms can appoint.

4.3. Additional tests: FD from developed and developing countries

In this section, we analyse the relation between foreign directors from developed countries and firm performance. We create new variables, that are FD_DEV and FD_DEV_ratio. FD_DEV is a dummy variable that is equal to 1 if the firm has at least one foreign director from developed country and FD_DEV_ratio is the proportion of foreign directors from developed countries. Then we take regression of firm performance on *FD_DEV* and *FD_DEV_ratio* on the column (1) and (2), respectively. Similar to our hypotheses, we expect that the coefficients of these two variables are significantly positive. We then include both FD and FD_DEV in column (3) while column (4) represents the results for regression when both FD_DEV_ratio and FD_ratio. In our sample, the average percentage of firms having foreign directors from developed countries is about 25.4% while the average proportion of foreign directors from developed countries accounts for 7% on board, indicating that foreign directors are mainly from developed countries.

There are two motivations for underlying analysis. Firstly, as we hypothesize, foreign directors from countries with higher economic development with better expertise, experience and networks from their home countries can benefit firms in Vietnam, and thus foreign directors from developed countries are expected to bring more benefits for firms. This analysis will further strengthen our main results. Secondly, motivated by the findings that having foreign directors improve firm performance while higher proportion of FD does not add more benefits, this additional test try to provide evidence for previous explanations. In previous section, we explain for this finding is that adding more foreign directors may cause misunderstandings, slower decision making, and more difficulty in communication. In this test, we expect that closer backgrounds of foreign directors are the less misunderstandings and faster communications, in return, higher firm performance. Specifically, higher proportions of foreign directors from developed countries are expected to be associated with higher firm performance as foreign directors from countries with similar level of economic development may share similar ways to operate business and corporate governance practices and thus fewer conflicts and misunderstandings.

Table 4. *The relationship between foreign directors from developed countries and firm performance*

VARIABLES	(1) ROA	(2) ROA	(3) ROA	(4) ROA
FD			-0.003	
			(-0.15)	
FD_DEV	0.037***		0.040*	
	(2.77)		(1.87)	
FD_DEV_ratio		0.083*		0.167**
		(1.95)		(2.23)
FD_ratio				-0.088
				(-1.37)
FirmSize	0.112***	0.114***	0.112***	0.113***
	(5.24)	(5.31)	(5.23)	(5.26)
FirmAge	-0.098***	-0.095***	-0.097***	-0.089***
	(-4.04)	(-3.92)	(-3.98)	(-3.65)
BoardSize	0.008**	0.008**	0.008**	0.009***
	(2.41)	(2.56)	(2.41)	(2.67)
SalesGrowth	-0.000	-0.000	-0.000	-0.000
	(-0.26)	(-0.18)	(-0.26)	(-0.12)
Cashflows	0.051*	0.051*	0.051*	0.051*
	(1.75)	(1.74)	(1.75)	(1.75)
Leverage	-0.241***	-0.239***	-0.241***	-0.240***
	(-6.76)	(-6.69)	(-6.76)	(-6.73)
Observations	955	955	955	955
R-squared	0.0934	0.0888	0.0934	0.0910
Number of Firm_code	175	175	175	175

Table 4 reports the results of our additional analysis. Column (1) and (2) shows the results of regressions that replace *FD* and *FD_ratio* in equation (1) with *FD_DEV* and *FD_DEV_ratio*, respectively. The coefficients of *FD_DEV* and *FD_DEV_ratio* are 0.03and 0.083 and significant at the level of 1% and 10%, respectively. The magnitude of the coefficients and significant levels of these variables are larger than those of *FD* and *FD_ratio* in column 1 and 2 of Table 3. Column 3 shows the results when we include both *FD* and *FD_DEV* in the regression. Similarly, column 4 reports the results when both *FD_ratio* and FD_DEV_ratio are included in regression. The coefficients of *FD_DEV* and *FD_DEV_ratio* remain positive and significant although both magnitude and level of significant are lower. While the proportion of FD has no relation to firm performance, the proportions of FD from developed countries are positively related to firm performance.

These results have two implications. Firstly, the relationship between foreign directors from developed countries and firm performance is stronger than that of FD in all countries and firm performance, and thus supporting for the view that FD's expertise, experience, and networks from their home countries are benefits for firms. Secondly, the coefficient of *FD_DEV_ratio* is positive and significant although at the level of 10%, implying that more foreign directors from developed countries are associated with higher firm performance. This result is consistent with our prediction that more foreign directors but if they are from similar economic background, they enhance firm performance further, implying that the less diversity in board members' backgrounds brings more benefits for firms.

5. Conclusion

In today's globalizing world, board of directors becomes more internationalized. Having foreign directors on board, however, brings both benefits and costs to the firms and empirical results in literature are inconclusive. We examine this relationship between foreign directors and firm performance measured by ROA in the context of Vietnam,

We explore the impact of foreignness of corporate boards on firm value measured by Tobin's Q for a sample of 855 observations from175 stock-listed firms in Vietnam in the period 2013 to 2019. The findings demonstrate that having foreign directors the board is positively related to firm performance but adding more and more foreign directors can bring more benefits only if they are from developed countries. The results indicate that expertise, experience, and networks of foreign directors improve the effectiveness of the board while diversity on foreign directors' economic background do not bring benefits to firms.

However, this study has limitations. Although we run regressions with fixed effect to deal with the endogeneity due to potential omitted variables, endogenous problem still exists. The foreign fund can select good performance to invest. This means that good firms attract foreign directors instead foreign directors improve firm performance. In addition, how diversity of foreign directors has effect on firm performance is also in need for further investigation.

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APPENDIX 1: Variables description and data sources

Variable	Acronym	Description
Foreignness of the board	FD	Dummy variable that is equal to 1 if there is at least one foreign director on board
	FD_ratio	Proportion of foreign directors on board
Return on assets	ROA	Ratio of net income on total assets, winsorized at 1%.
Firm size	FirmSize	Market value in millions of VND measured at the end of the calendar year; log-transformed
Leverage	Leverage	Total debt scaled by total assets, measured at the end of the calendar year, winsorized at 1%.
Firm age	FirmAge	The number of years since the company was established; log-transformed.
Sales growth	Salesgrowth	The annual growth rate of the firm's total sales in %; winsorized at 1% at each end of the distribution.
Cashflows	Cashflows	The ratio of cashflows on total assets
Board size	BoardSize	The number of directors on the board