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CORPORATE GOVERNANCE AND BANK PERFORMANCE: A CASE OF VIETNAM BANKING SECTOR

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Abstract. The purpose of the paper is to assess the impact of corporate governance on Vietnam banks' performance measured by ROA (return on assets) and OER (operating efficiency ratio). The article uses a research method which is a quantitative research method through the construction of a binary Probit model with two aggregate variables, namely Macroeconomic indicators and financial index variables. The results are consistent with prior research findings, and more importantly, presents statistical justification for pursuing further corporate governance reforms to enhance Vietnam banks' performance. These findings also lay a foundation for policy makers to make necessary changes to improve corporate governance (i.e role of board of directors, shareholder issues) of Vietnam banks in the future. Social Implications: the study used Vietnam listed banks' financial data collected covering a period 2008 to 2018. The findings indicated that board size, CEO duality and large shareholder had statistically significant effect on bank performance in both ROA (return on assets) and OER (operating efficiency ratio). While institutional shareholders and foreign shareholders made no impact on Vietnam banks' performance.

Keywords: bank performance; corporate governance; shareholders; Vietnam

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1. Introduction

Corporate governance is a combination of many factors that ensure business wealth. It is necessary to the existence of an institution as it ensures its commitment to higher growth and profits, as well as inspires and strengthens investors' confidence (Gopalsamy, 2006). Corporate governance concept is in a continuous process of adaptation to the requirements of modern economy, globalization as well as the information needs of investors and third parties interested in the business (Claessens, 2003; Dudukalov et al., 2016; Ivanova et al., 2019). Good governance is a condition to build market confidence and encourage flows of long-term investment. Several countries depend on implementing corporate governance practices to improve economic dynamism, thus improving overall economic performance (Pintea, 2015). Corporate governance is also the process to direct and manage the institutions in order to improve long term shareholders' value by enhancing corporate performance, considering the interest of other stakeholders (Jenkinson & Mayer, 1992; Lehoux et al., 2019; Okpamen, H., & Ogbeide, S.O., 2020).

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Based on the above research gaps in corporate governance and the context of Vietnam banking sector, this study aims to evaluate impact of corporate governance on Vietnam banking performance. The rest of this paper is structured as follows: overview about Vietnam Banking sector and a review of relevant literature, the proposed research methodology will be discussed in the subsequent section. Section four provides analyses and discussions on the results and findings. The summary and conclusions are presented at the end of this paper. The results will provide some exploratory information for further empirical studies and bank regulations in Vietnam.

Over the course of 10 years from 2008 – 2018, the banking sector of Vietnam has experienced high and low, changes and challenges that the sector altogether with the economy has been urging to overcome. The biggest challenge in banking activities in 2008 was the management of interest rate policy. 2008 came with unexpected fluctuations, undoubtedly affecting currency market which leads to adjustments made by the State Bank of Vietnam (SBV). The prime rate has been raised 3 times from 8.25% to 14% in order to combat inflation. Furthermore, there was an instability in exchange rate which at times was boosted to 19,000 – 19,800 VND/USD, creating high demand for USD. Likewise, the global financial crisis made unfavorable impact on the banking sector, causing profits of many commercial banks to not reach their set goals. Even though the year 2009 experienced a stable monetary policy and exchange rate, tensions did take place, causing issues to capital mobilization and lending. However, to a rather surprising recovery of the economy, banks' profits got back quickly and drastically until the end of the year. In 2010, Vietnam succeeded in issuing a billion dollars' worth of government bonds, though credit rating of Vietnam had been lowered by 3 biggest international credit rating agencies.

2011-2015 is a period where Vietnam banking sector encountered with hardships and challenges but from there, successes did rise, lifting role and prestige of banks in the economy. The average credit growth was about 13.5%/year, much lower than that of 2006-2010 at 33.3% year. Nevertheless, this rate is fitting for the capital absorption capacity of economy. Restructuring the system of credit institutions in the past years had been met with accomplishments when underperformed credit institutions were restructured, hence keeping things balance and steady as much as possible. Banks put efforts into controlling credit quality and reducing the amount of bad debts though it was clear that the banking sector hadn't done well enough. This came from the fact that management and risk management capacity were very weak, preventing high growth and causing problems to rise.

Vietnam had suffered many negative impacts in 2016, notably because of natural disasters such as draught, making the economy grow very slowly. Banks made great efforts to improve credit conditions as well as shortening the procedures. In 2016, the banking sector completed its set objectives when inflation was kept below 5%. Likewise, the total means of payment did climb gradually and appropriately. 2017 came after with many positive policies, making breakthrough here and there. In 2017, there were 5 banks bringing stocks to trade on the stock market - a record high in recent years. 2017 also witnessed the appearance of bitcoin when the price of this cryptocurrency peaked at nearly $20,000 compared to just $1,000 at the beginning of the year. Aiming at cashless payments, credit institutions in 2017 have consistently launched new products to catch up with this trend, especially technologies application on mobile devices, such as face recognition, fingerprint authentication, etc.

Lastly, 2018 saw a strictly controlled credit growth of under 16%. Ten commercial banks had started to carry out the Basel II standards. November 2018, VIB and Vietcombank became the first two Vietnamese banks eligible to apply CAR in accordance with Basel II standards. Additionally, many large banks reach nearly 90% of the year's profit before tax target of thousands of billion dong, such as Vietcombank (11,600 billion VND), Techcombank (7,774 billion VND), Vietinbank (7,500 billion VND), BIDV (7,200 billion VND).

2. Literature review

In relation to banking, corporate governance has been contributing a large part in managing bank systems, procedures, processes and such. Consequently, assets and liabilities should be treated as means to increase shareholder value as well as shareholder satisfaction. In 1976, Jensen and Meckling (1976) has developed some researches about the theoretical relationship between corporate governance and firm performance. They brought together three theories which are theory of agency, theory or property rights and lastly theory of finance in order

to establish the theory of the ownership structure of the firm (Samusenko et al., 2020).

Since then, a great number of researchers had looked at how ownership structure can affect firm performance. Eldenberg et al (2007) presume that the objectives and how the board govern the company will vary depending on the type of ownership which that company adopts. Throughout the research, they found that different board structures will result in dissimilarities in factors that determine the income of board of director and the income of CEO. Staikouras et. al (2007) proposed that the relationship between ROA and ROE and the board size is significantly negative. On the other hand, the distribution of non-executive directors has been reported to have a positive effect on the firm performance (Alonso and Gonzalez, 2006; Rahman, 2018; Yemelyanov et al., 2019). Zulkaifli & Samad (2007) studied how corporate governance works in the listed banking firms in nine developing countries of Asia. The data allowed them to come up with the idea that banking and non-bank firms have different supervising or monitoring policy and mechanism. They divided the mechanism into four groups which are ownership monitoring mechanism consisted of large shareholders, government ownership and foreign ownership; internal control monitoring mechanism comes second with CEO duality, board size and board independence; regulatory monitoring mechanism comes third which leaves disclosure monitoring mechanism the fourth and the last one in four categories.

According to Babatunde & Olaniran (2009) there are three levels of determinants of institutions' performance. The first is related to external factors that are beyond the institution's control and are generally economy-wide. The second are internal factors that are under the direct purview of the institutions, affects the ability of the institutions to cope with external factors. These factors include managerial efficiency, governance structure; ownership structure etc (Korableva et al., 2019). Finally, there are other factors like size, leverage, and nature of the industry that affect institutions' performance. I will be mainly focusing on the internal corporate governance mechanisms, which are the ownership structure and board structure (Prodanova et al., 2019; Garnov et al., 2020; Prokhorova and Sedov et al., 2014; Sychev, 2016).

Banking sector plays a central role in the development of the economy. A healthy and strong banking sector is a precondition for sustainable economic growth. Banks have important roles in the economy regarding the growth of corporations, accumulation of capital and provision of economical wealth. In today's financial sector where the competition is at its highest levels, banks are forced to make the most effective use of their resources. This urges a need for the bank managers and decision makers in banking sector to compare their bank's activities to other competing banks' activities (Dogan, 2013; Rahman and Bobkova, 2017; Plaskova et al., 2020; Ogiugo et al., 2020).

Further, according to Turlea et al. (2010) the foundation of a capital-intensive and highly developed economy is considered a sound banking industry (Akhmadeev et al., 2019; Poltarykhin et al., 2020). Consequently, all economic areas can be dramatically affected by disorders in the banking sector, this is due to the fact that as banks are the financial intermediaries attracting citizens' savings in the form of deposits; offering means of payment for services and goods and financing the development of businesses (Akhmetshin et al., 2018; Prodanova et al., 2020; Puryaev and Puryaev, 2020). In comparison with other entities, banks are subject to stricter regulations as they are responsible for protecting the depositors' rights, ensuring the payment system's stability and reducing systemic risk. Further, Levine (2005) considers that bank operations have a direct impact on institutions' activities and consequently countries' economic growth.

A direct link between corporate governance monitoring mechanism and corporate performance of banking firms was indicated in the research. However, bank performance was proved to not be affected too much by the factors of ownership monitoring mechanism and the internal control monitoring mechanism. In that same year, Spong and Sullivan (2007) analyzed other aspects in governing corporate which make impacts on bank performance by practicing on a random sample of state-chartered community banks. According to their findings, boards of directors are related to how community banks perform if there is an interest in the financial situation of the banks significantly. They also saw a positive connection between managerial ownership, wealth, financial positions of managers and directors and a bank's risk decisions and risk-return trade-offs.

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Other significant scientific research works dedicated to the problem of banking sector include the papers by A.M. Petrov (Petrov et al. 2019, Kiseleva et al. 2019, Muravitskaya et al. 2019, Sotnikova et al. 2019, Karpova et al. 2019), T.B. Turishcheva (Turishcheva et al. 2019, Ponomareva et al. 2019), Zh.A. Kevorkova (Kevorkova et al. 2019), E.V. Nikiforova (Igibayeva et al. 2020), A.A. Bakulina (Chernysheva et al. 2019), M.N. Tolmachev (Kosolapova et al. 2019), R.P. Bulyga (Bulyga et al. 2019), Yu.E. Putikhin (Putihin et al. 2019).

3. Hypotheses

This part will be providing an illustration of the five hypotheses. These hypotheses will explain the impact of the corporate governance on banking performance.

Ownership Concentration. According to agency theory, ownership concentration can be an effective tool to reduce agency cost and enhance the performance. Jensen and Meckling (1976) argue that there is a positive correlation between concentrated ownership and performance because when the ownership is concentrated, the conflict of interests will decrease. The 'monitoring argument' is a frequent argument when discussing the effect of total ownership concentration on institution performance. The argument says that large owners have more capability in controlling and monitoring the management, and thus contributing to a better corporate performance (Schleifer and Vishny, 1997). Another argument on ownership concentration claims that institutions with the high degree of concentration perform differently than other institutions and characterized by severe conflicts raised between the controlling and minority shareholders (El-Chaarani 2014).

These two arguments give rise to a non-linear relationship between total ownership concentration and performance. In the beginning, there is an increasing effect of ownership concentration on institutions' performance and then a decreasing effect (Scholten, 2014). Claessens, Simeon et al. (2002) finds similar pattern. Empirical evidences between ownership concentration and bank performance is different. Some of previous studies have reported a positive relationship between ownership concentration and corporate performance, some reported to be a negative relationship and there were also others who claimed that these are not related at all.

H1: *There is a significant negative impact of ownership concentration on bank performance.*

Institutional Ownership. Investors will surely choose good project to invest their money in order to have higher rate of returns and profitability. Institutional ownership plays a significant role in reducing external monitoring cost by transferring more information about the corporation to the shareholders. A positive relationship between institutional ownership and performance is expected (McConnell & Servaes, 1990; Shleifer & Vishny, 1997; Smith, 1996; Filatotchev et al., 2005). Conversely, a negative relationship between institutional ownership and performance was advocated depending on conflict of interest and strategic alignment hypotheses, (Barnhart & Rosenstein, 1998).

H2: *There is a significant negative impact of institutional ownership on bank performance.*

Foreign Ownership. Domestic or international relationship is another factor that can lead to differences in organizational objectives, practices, and governance mechanisms (Eldenburg et al. 2004). The findings show that by disclosing more information, corporates could attract more investors. Therefore, a higher proportion of foreign shareholders means better performance from banks.

H3: *There is a significant positive impact of foreign ownership on bank performance.*

Board Size. Board size plays an important role in firms' success and growth. An effective board should succeed in performance. According to some theories, the board members are the link between the institution and the resources it needs to maximize value (Pfeffer 1973; Pfeffer and Salancik 1978). Hence, we can infer that a larger number of members in the council involve greater possibilities for obtaining resources. On the other hand, Jensen (1993) and Lipton and Lorsch (1992) suggest that as the size of the board increases beyond a

certain point, these inefficiencies outweigh the benefits of having more directors to draw on, resulting in lower level of firm performance

H4: *There is a significant positive impact of board size on bank performance.*

CEO Duality. Fama and Jensen (1983) considered that a board of directors dominated by the executive directors cannot be monitored. Further, the authors state that**,** duality is when one individual is appointed as both the CEO and board chairman. Hermalin and Weisbach (1991, 1998) put forward that CEOs also retaining the position of Chairman will be inclined to have a greater influence over the board members selection and so dominate the decision-making processes and internal information systems. However, some other researchers argue against the agency theory and propose stewardship theory (Elsayed 2007) claiming that duality can play a role in improving corporate performance in an institution as it can provide the institution with a CEO and chairman who is knowledgeable and experienced in better decision making in a timely manner, accordingly can have a positive effect on corporate performance (El-Faitouri 2014).

H5 *There is a significant negative impact of CEO duality on bank performance*

Control Variables. Bank size is an important determinant of Bank performance. Many institutions are extremely large in both absolute terms and in relation to their national economies (Demirgüç-Kunt & Huizinga 2011). Further, banks are becoming very competitive; consequently, to compete effectively, this drives them to enhance their cost efficiencies. Thus, this drives them to grow bigger to exploit economies of scale (Milbourn et al., 1999).

Banking risk can be defined as a phenomenon that occurs during banking operations and causing negative effects on these activities by the deterioration in asset quality, reduced profits or even losses registration, all of which affect the functionality of the bank (Binh & Giang, 2012).

4. Research methodology and limitations

The research investigates the performance of 17 listed Vietnam banks in the period from 2008 to 2018 with 187 observations. The data was collected from financial statements and annual reports of banks. In addition, based on the literature presented earlier it is necessary to control for bank's size and bank risk level because banks of different sizes and exposure to risk can differ in terms of both their performance and efficiency of corporate governance.

Table 1. Definition of variables

Variables	Variables symbols	Definition	Measurements
Dependent variables			
Bank performance	ROA	Return on assets	Net income/total assets
	OER	Operating efficiency ratio	Total operating expenses (including provision for credit loss/total operating revenue
Independent variables			
Ownership Concentration	Large	Percentage of shares held by large shareholders	
Institutional Ownership	Inst	Percentage of shares held by institutions	
Foreign Ownership	Foreign	Percentage of shares held by foreign shareholders	
Board Size	Bodsize	Number of members in the board of directors	
CEO Duality	Dual	If the CEO and Chairman are the same person = 1; otherwise= 0	
Control variables			
Bank size	Size	Natural log of total Assets	
Bank risk level	Risk	Total loan loss provisions/Total assets	

Source: compiled by the authors

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We employed a panel data regression model to access the impact of corporate governance on Vietnam banks' performance as follows:

$$\textbf{Performance}_{it} = \beta_1 + \beta_i \textbf{ Corporate Governance}_{it} + X_{it} + \varepsilon_{it}$$

In which, t is indicated to be the time dimension, X it is a vector of control variables (e.g., $Size_{it}$, $Risk_{it}$).

5. Results

Descriptive analysis. The descriptive statistics of all variables are presented in Table 2. In particular, the average profitability Ratio (ROA) and Operating Efficiency Ratio (OER) for the sample of banks is 0.98% and 64.52% respectively. On average, 17 Vietnam listed banks have 9 members on their board, with high ownership concentration (39,56%). Approximately, in 71.72 percent of the observations the CEO was serving as the chair of the board.

Table 2. Descriptive statistics for variables

Variable	Mean	Std. Dev.	Min.	Max.
Dependent Variables				
ROA	.9789327	.7476616	.0100717	5.9518
OER	64.51582	13.19343	8.302881	128.535
Explanatory Variables				
Large	39.56595	35.2597	0	97.45
Inst	36.05753	25.3851	1.1017	97.8
Foreign	13.03158	11.6188	0	30,06
Bodsize	9.941176	3.641423	4	22
Dual	=1 if CEO	= Chairman	133 obs.	(71,12%)
	=0 if CEO	# Chairman	54 obs.	(28,88%)
Control Variables				
Size	18.52754	1.20871	14.69872	20.99561
Risk	0.8380214	1.735746	0	14.16
No. of observation	187			

Source: compiled by the authors

Table 2 presents an overview about the Vietnam banks included in our sample (listed on stock exchange). Concerning the performance measures, the average ROA was low (0.98%) and the average value for operating efficiency was 64.52%. In facts, the higher ROA ratio, the more income is generated by a given level of assets. And the lower OER ratio means that banks are operating better. Although the ratio will vary across different countries because of its industry and economics situation, but ROAs over 5% are generally considered good for firms and about 1% for banks (because banks have high financial leverage).

On average, Institutions hold 36.06 percent of total outstanding shares of banks, while shares held by the foreign investors' amounts to 13.03 percent and range between 0 and 30.06 percent suggesting that not all Vietnam banks in the analysis had a foreign investors and the 4 largest ones are in group state- owner enterprises. Moreover, one of important components to is bank size. The estimates will be biased if we fail to control heterogeneous bank's size because we have different expectations for different size bank. In addition, we have another control variable: bank risk level. In economics theory, the higher risk, the higher expected return we will have.

Hypothesis testing. To study the effect of corporate governance on bank performance, two econometric models are used in order to test for the five hypotheses mentioned earlier. We used panel data regression (fixed model) to test the impact of corporate governance on ROA, OER basing on different types of ownership structure.

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Model 1,4 me assures impact of ownership concentration (large) on ROA and OER. Model 2,5 measures impact of Institutional shareholders (inst) on ROA and OER. And, model 3,6 measures impact of Foreign shareholders (foreign) on ROA and OER. Impact of corporate governance on Vietnam banks' performance is presented in the table 3.

Table 3. Regression results for testing the impact of corporate governance on ROA

	(1) ROA	(2) ROA	3 (ROA)
Large	-0.000879** [-1.52]		
Inst		0.00159 [0.72]	
Foreign			0.00112 [0.24]
Bodsize	0.0356** [2.18]	0.0372** [2.44]	0.0381** [2.48]
Dual	-0.202* [-1.71]	-0.205* [-1.78]	-0.217* [-1.89]
Size	-0.0562*** [-1.98]	-0.0700*** [-1.28]	-0.0694*** [-1.22]
Risk	0.0175 [0.56]	0.00756 [0.23]	0.0162 [0.52]
_cons	1.829* [1.85]	1.989** [2.07]	2.012** [2.02]
N	187	187	187
R-sq	0.340	0.345	0.335
t statistics in brackets			
* p<0.1, ** p<0.05, *** p<0.01			

Source: compiled by the authors

$R^2 = 0.340$, 0.345 and 0.335 mean that the models (1) (2) (3) respectively explain 34.0%, 34.5% and 33.5% changes in ROA.

The result of model (1) indicated that coefficient of ownership concentration was statistically significant and positively related to the ROA $\hat{\beta}$ = - 0.000879 and p-value < 0,05) , suggesting that if other things hold constant, When percentage of shares owned by large shareholders increase 1%, it will slightly decrease ROA by 0.000879 %. The result is backed up by some research before such as Boone et al., (2011); Jiang et al., (2009); Mudambi & Nicosia, (1998). They found that banks with more dispersed ownership are coupled with higher profitability and better asset quality. In addition, a high ownership concentration among Vietnam banks is shown in Table 3 indicating that, on average large shareholders hold a significant (39.57 percent) proportion of total shares issued by the banks. Therefore, the ownership concentration is one of the most important factors to be considered when evaluating the performance of banks in Vietnam.

By contrast, coefficients of these 2 variables (Inst and foreign) was positively related to the ROA but not significant ($\hat{\beta}_I$ = 0.00159, P-value > 0.1, $\hat{\beta}_F$ = 0.00112, P-value > 0.1), so we can conclude that Institutional shareholders and Foreign Shareholders made no impact on Vietnam banks' performance. The reason behind this can be explained by looking at its data in table 2 , there are only 13,03% average shares owned by foreign investors, some banks didn't had any foreign capital on their ownership structure, same problem can be seen from institutional ownership data, 36,06% average shares held by institutions, however Std. Dev = 25.38512 suggests that it was inconsistent values between banks and over years , therefore , foreign and institutional investors held modest impact on Vietnam banks' performance.

Boardsize has a significant relationship with performance measured by ROA. The relationship is negatively and statistically significant at 5%. And Duality has a significant negative relation with performance measured

by ROA statistically significant at 10% significance level. This is supported by the agency theory suggesting that a board of directors dominated by the executive directors cannot be monitored (Fama and Jensen, 1983). Further by, Hermalin and Weisbach (1991, 1998) who put forward that CEOs also retaining the position of Chairman will be inclined to have a greater influence over the board members selection and so dominate the decision-making processes and internal information systems. Additionally, duality makes the CEO entrenched, consequently, the CEO being also a chairman can facilitate access to the required information and change the plans of the board. Accordingly, combining the roles of CEO and chairman leads to entrenchment of the CEO or executive directors, and this limits the board's monitoring ability. After all, the findings indicated that the corporate governance factors influence on the Vietnam bank's profitability.

In two control variables, only bank size variable is statistically significant. The result is found that larger banks will be less profitable and efficient. The reasons perhaps problems in coordinating the different functions or line of businesses.

Model 4 measures ownership concentration (large) 's impact on OER. Model 5 measures institution shareholders (inst)'s impact on OER. And, model 6 measures Foreign shareholders (foreign)'s impact on OER. $R^2 = 0.204$, 0.210 and 0.204 mean that the models (4) (5) (6) respectively explain 20.4%, 21.0% and 20.4% changes in OER.

Regression result in Table 4 suggest that there is no impact of ownership structure on bank operating efficiency (P-value > 0,1). By contrast, The board size coefficient was positive (0.655, 0.632, and 0.672 respectively) and significant (P-value < 0.05) which is consistent with the conclusions drawn by Zahra and Pearce (1987) who argued that a large board size brings more management skills and makes it difficult for the CEO to manipulate the board.

Table 4. Regression results for testing the impact of corporate governance on OER

	(4) OER	(5) OER	6 OER
Large	0.00202 [1.07]		
Inst		-0.0281 [-1.72]	
Foreign			0.0140 [1.17]
Bodsize	0.655** [-2.27]	0.632** [-2.34]	0.672**
Dual	-3.402* [1.63]	-3.230* [1.58]	-3.435* [1.70]
Size	-0.0145** [1.01]	-0.113** [1.12]	-0.00977** [-1.01]
Risk	-1.616*** [-2.92]	-1.471** [0.23]	-1.602*** [0.52]
_cons	69.62*** [3.98]	68.66*** [4.04]	70.10*** [3.98]
N	187	187	187
R-sq	0.204	0.210	0.204
t statistics in brackets			
* p<0.1, ** p<0.05, *** p<0.01			

Source: compiled by the authors

And dual variable has also a significant negative relation with performance measured by OER statistically significant at 10% significance level. This finding is the same with the impact of dual on Vietnam banks 'performance. The result indicates that when CEO also serves as chairman in the board, the banks didn't earn any profit nor operating efficiency from that.

The two control variables (Bank Size and Bank Risk) included in the analysis were statistically significant. The negative relationship between Bank Size and Operating Efficiency ratio suggests that, the larger bank's assets, the more efficiency bank achieve (reduce Cost effect).

Conclusion

In this study, we examined the role of corporate governance variables and control variables on bank performance using panel data regression. The results of our study support the earlier contention that the ownership concentration variable possesses negative and significant value. As a result, there is a negative impact of ownership concentration on bank performance. On the other hand, the institutional ownership and foreign ownership do not matter to bank performance as expected. This finding could be partially due to the specific characteristics of the banks in our sample that represent the listed banks on Vietnam stock exchange only.

In terms of corporate governance aspect, our results advocate the resource dependence theory, which suggests that larger board size would lead to better corporate performance using OER thanks to the wide range of knowledge, skills as well as expertise brought into boardroom discussion. Our duality variable, which we use to evaluate the concentration of control in one person, numbers statistically insignificant. We can conclude that the duality of CEOs is not so important among Vietnam banks, and as only around half of banks use this structure, it is not common as well.

Finally, there are a few policy implications related to our study. Our results recommend that ownership concentration plays an essential role in bank performance. Policymakers should emphasize ownership concentration when they consider policy decisions on issues related to bank performance. Although the impact of board size and duality is significant, we maintain that these governance mechanisms should not be overlooked, because previous studies find significant roles for these variables. Although agency theory suggests that the separation between ownership and management induces agency costs due to the possible conflicts in their interests, we find that banks with more dispersed ownership structure are more efficient. Accordingly, we suggest the reconsideration and careful analysis of the ownership structure in an emerging market. Our results also suggest that, in mergers and acquisitions, policymakers should again prioritize this type of ownership structure, as it plays a role in bank performance through the size effect.

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