THE IMPACT OF POLITICAL CONNECTION ON FIRM PERFORMANCE: EMPIRICAL EVIDENCE FROM VIETNAMESE LISTED COMPANIES IN MANUFACTURING SECTOR

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DECLARATION

I declare that this thesis contains no material that has been accepted for the award of any other degree or diploma in any institution or university. The thesis is based on my original work except for quotations and citations which have been acknowledged accordingly. I also declare that this thesis has not been previously or simultaneously submitted, either partially or wholly, for any other qualification at any university or institution.

Man The Nguyen

September, 2020.

DEDICATION

I dedicate this thesis to my sweet mum – Dung Thi Nguyen and my great dad – Duong The Nguyen.

ABSTRACT

The concept of political connection and its related determinants have received significant attention in academic discussion due to political heterogeneities across countries. Furthermore, although the appointment of current or former politicians to corporate boards is a highly prevalent corporate political strategy, empirical evidence is inconclusive as to whether and how such appointments create or destroy value for firms and their shareholders. To mitigate these challenges and ambiguities, a deeper understanding of the variances in the implication of political connection from different certain features of firm-, industry- and country-specific factors has been accentuated in this research area. Moreover, such implications might be contingent upon varying institutional environments. This results in a research call for fuller examination of considering institutional factors in the investigation of dynamic role of political connection. Drawing from different theoretical lens in the field of political connection, the thesis conducts two related empirical studies to analyse the impact of political connection on firm performance and what determinants influence this impact. In particular, the first goal seeks to investigate the relationship between political connection and firm performance. It also assesses the moderating effect of ownership structure (namely SOE[1]) on the relationship between political connection and firm performance. The second goal examines the joint effect of political connection and institutional indicators on firm performance. To achieve the purposes of research, the thesis applied main method of two-way fixed effects controlling for unobservable company and time characteristics and two-step system GMM controlling for endogeneity issue to a panel of 172 manufacturing companies during the period from 2007 to 2016.

For the first goal, the research develops the hypotheses based on existing theories on political connection, namely helping-hand and resource-dependency against grabbing-hand and agency theory. Additionally, the study disentangles political connection into its types and calculates its strength based on political administrative rankings, and its ratio via

[1] State-owned enterprises

number of politically conencted directors relative to board size, thus suggesting the different roles played by different types, strength and ratio of political connection. This analysis helps to extend existing literature of political connection on emerging countries and generalise its findings to Vietnamese context. It challenges much of the current literature only focusing on the benefits of acquiring political capital on the board by showing the dark side of political connection in Vietnamese listed companies in manufacturing sector.

Furthermore, the thesis concentrates on the factors receiving the limited attention in current literature by investigating the moderating effect of ownership structure on the relationship between political connection and firm performance. The findings show that the effects of political connection on the performance of state-controlled enterprises remain negative. These findings support the integrated viewpoint of grabbing-hand and agency theory to explain these negative effects. Through the analysis of margin, there is evidence that political connection has no benefit on the performance of non-state-controlled enterprises. The findings stay the same with those obtained by two-step system GMM technique. The further analysis is also done by examining the effect of different types, strength and ratio of political connection on the performance of state-controlled enterprises. The additional findings inform the different impacts of types, strength and ratio of political connection on the performance of state-controlled enterprises and non-state-controlled enterprises. As a result, the study contributes to existing literature on reconciling inconclusive findings of previous studies on the importance of taking into account the identity of controlling shareholders, which tends to be underexplored in previous literature, to investigate the net performance effect of political connection.

For second study, the study scrutinises the contingent value of political connection on firm performance during the development of regional institutional development. There are the limited studies carried out regarding the effect of interactions of political connection and institutional indicators on firm performance. A few studies have put a major emphasis on Chinese context due probably to the influence of state over economy and data availability of regional institutional indicators as NERI index. In order to develop this line of literature, the study is thus to utilise data availability of provincial competitiveness index in Vietnam to capture the contingent role of political connection during regional institutional development. This chapter uses four different institutional indicators, such as legal system, corruption, entry costs and business support service. Through the results from the analysis of fixed-effect estimation, it shows the positive role of political connection in the face of the development of legal system, the high degree of local anti-corruption effort, but no its contingent role when the entry costs are diminished and the institution of business support service is developed. These results from fixed-effect estimations remain the same with those from two-step system GMM approach, excluding the interaction of entry costs and political connection. As a result, such finding of joint effect between political connection and entry costs should be interpreted with careful caution. Generally, the contribution of the chapter is to enrich our understanding on the contingent role of political connection in emerging countries with different institutional conditions.

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CHAPTER 1: INTRODUCTION

1.1. BACKGROUND OF THE STUDY:

Vietnam has undergone rapid economic development since the initiation of the *Doi Moi* program in 1992. In this time, remarkable economic achievements have been made, aided by Vietnam's greater participation in world economic associations, namely WTO. In parallel with this, many types of enterprises have been introduced into the economy with more business freedom for private enterprises and partially and full FIEs (Foreign Investment Enterprises). Nevertheless, despite radical economic reforms, there have been the challenges to economic governance and regulations (Kim et al., 2010). Specifically, private companies are still lagging behind the state-owned enterprises and foreign investment enterprises (FIEs) in terms of access to state resources, such as tax exemptions, government subsidies and contracts and so forth. Therefore, it is essential that private companies establish the relationships with government officials in order to relax the regulatory constraints and to acquire the developmental resources more readily (Nguyen, 2009). From this point of view, a comparison between Vietnam and other research contexts will be made in Chapter 2.

1.2. MOTIVATION AND NEED FOR THE STUDY:

This study has been motivated by the following issues. The first is related to the corporate scandals in state-owned enterprises in Vietnam. Such recent cases of corruption have raised a major question regarding the efficiency of corporate governance in state-owned enterprises or state-owned business groups (OECD, 2013). In recent years, it has emerged that the politically connected directors have exploited their preferential access to the state resources of state-owned enterprises and commited fraud to gratify their own interests rather than those of their enterprises (Nguyen, 2016). From such a preliminary situation, an empirical investigation is needed to examine the role of politically connected directors in the Vietnamese companies in general, and to make a comparison between state-controlled and privately-controlled enterprises in particular. Furthermore, notwithstanding the radical institutional reforms in recent years in Vietnam, there remain specific empirical questions over the potency of the legal system and anti-corruption efforts across Vietnamese provinces in deterring the self-interest practices of politically connected directors. Moreover, inconclusive findings have been obtained in previous empirical investigations of the moderating effect of entry costs and business support service on the link between political connection and firm performance (Boubakri et al., 2008; Zhao and Lu, 2016). In order to develop these past studies, this study conducts further examination of whether political connection matters for firm performance in the regions with varying levels of entry costs and business support service.

1.3. AIMS AND OBJECTIVES OF THE STUDY; KEY RESEARCH QUESTIONS:

1.3.1. AIMS AND OBJECTIVES OF THE RESEARCH:

The main purpose of the study is to examine the relationship between political connection and firm performance, as well as to investigate the effect of such connection on the performance of state-controlled enterprises and non-state-controlled enterprises. Another motivation for the study is the wish to determine whether the institutional development, namely the legal system, regional anti-corruption campaigns, entry costs and business support service, has any moderating influence on the relationship between political connection and firm performance. The main aim will be achieved by focusing on the following individual objectives:

1. To evaluate whether the political connection drives or hinders firm performance and the effect of its different forms, strength and ratio on such performance.
2. To make a detailed examination of the extent to which the role of political connection differs greatly between the state-controlled enterprises and non-state-controlled enterprises.
3. To assess dynamic role of political connection during regional institutional development.

1.3.2. THE KEY RESEARCH QUESTIONS:

Through the objectives and aims of the study, an attempt is made to answer the following questions:

1. Does political connection impede or enhance firm performance? (Chapter 5)
2. what role does political connections play in the operational performance of state-controlled and non-state-controlled enterprises? (Chapter 5)
3. What is the contingent role of political connection in the process of regional institutional development? (Chapter 6)

1.4. SUMMARY OF RESEARCH METHODOLOGY:

The study adopted one dependent variable to capture corporate financial performance, namely market-based performance in the form of Tobin's Q. Tobin's Q is a widely used measure of the efficiency of a firm's operations; unlike accounting-based measurements of firm performance, it is evaluated as a forward-looking measure of firm performance as it captures the market value of a firm's assets and is less subject to the biased measurements (Phung and Mishra, 2016). As for independent variables, the research follows previous studies (El Nayal et al., 2019; Hung et al., 2017) by employing information on the directors' working background as a proxy for the presence of political connections. Other variables that could also impact financial performance which have been controlled in the study are firm size, the natural logarithm of board size, the natural logarithm of firm age, CEO duality, ownership concentration, the tangibility ratio and financial leverage. The method of analysis used in the study is that of panel data to control for individual heterogeneity (Hsiao, 2003), while the Hausman test is employed to help to select the most appropriate panel estimations, namely fixed-effect and random-effect panel ones. The panel data analysis is often prone to the endogeneity issue, namely reverse causality, which the static panel data analysis cannot resolve. Hence, the two-step system GMM dynamic model will be utilised to examine whether or not the results obtained by the fixed-effect and random effect models are subject to the issues of endogeneity.

1.5. MAIN FINDINGS:

The findings of the study achieved the three main objectives of the study. Regarding the first objective, it is shown that there is a negative relationship between political connection and Tobin's Q. Such a negative effect of political connection on firm performance is consistent with previous studies (Fan et al., 2007; Shi et al., 2018), which suggests that the grabbing-hand theoretical perspective may be exploited to explain the role of political connection in the ongoing business of the enterprises. As a consequence, adversities stemming from the self-interested pursuit of politically connected directors are likely to bring about the agency-related problems at the expenses of firm performance and the shareholder interests. Such empirical results are confirmed in the further analysis by partitioning the concept of political connection into its first type and employing the strength of political connection.

With respect to the second objective, the study shows that while political connection hinders the performance of state-controlled enterprises, it has no influences on the performance of non-state-controlled ones. These empirical results partly support the arguments of Wang (2015) and Wu et al. (2012) that the political connection may pursue goals different to those of maximising the performance maximization of state-controlled enterprises. On the other hand, it is empirically apparent that there is an absence of an impact of political connection on the performance of non-state-controlled enterprises. This conclusion may contradict previous studies (Wang, 2015; Wu et al., 2012). These empirical results remain consistent when further analyses are made based on the separation of the definition of political connection and establishing its strength. Moreover, there is little knowledge of the determinants affecting the influence of political connection on firm performance (Brown, 2016; Sun et al., 2016).

Regarding the third objective, it is found that the institutional development plays a role in the relationship between political connection and firm performance. This study provides new empirical evidences for the diminishment of the grabbing-hand role or the agency-related problems generated by politically connected directors, when a better quality of legal system and the more intense implementation of local anti-corruption efforts act as the efficient strategies for suppressing the self-interest incentives of previous or current politicians on the board. Furthermore, the remaining institutional indicators in the study, namely entry costs and business support service, does not contribute to adjusting the negative impact of political connection on firm performance found in empirical Chapter 6. The empirical results remained unchanged with the exploitation of type I and the strength of political connection, and the application of the two-step system GMM approach. Nevertheless, the joint effects of political connection and entry costs in the two-step system GMM approach are different from those in the fixed-effect approach. Consequently, caution should be exercised over the interpretation of the findings on the interactive effect of political connection and entry costs on firm performance.

1.6. CONTRIBUTIONS AND POLICY RECOMMENDATIONS OF THE STUDY:

This thesis complements other studies and contributes to the existing literature on the impact of political connection on firm performance. The first contribution is the major focus on evaluating the role of political connection in the emerging countries. Using a sample of manufacturing companies quoted on two Vietnamese stock exchanges covering a fixed period from 2007 to 2016, the study found the negative side of political connection in the operation of listed Vietnamese companies in the manufacturing sector. The second contribution is consideration of the ownership structure in the assessment of the effect of political connection on firm performance. In particular, the study offers new insightful discoveries on the difference in the effect of political connection on the performance of state-controlled and non-state-controlled enterprises. The third contribution relates to the discovery of the contingent value of political connection in the process of the regional institutional development. Unlike previous studies, this study places emphasis on the fact that the harmful role of political connection is likely to be constrained by the regional legal system and local anti-corruption efforts.

The following policies are recommended: (a) investors on the market should expect policies from the government to curb the corrupt behaviour of politically connected board directors or supervisory board member which damage their interests, (b) the government should be more committed to direct the business climate towards the market-based rules, with more stringent legal enforcement and greater investor protection, and to create an equitable business environment between state-owned enterprises and private enterprises, (c) the privatization process should be further promoted to reduce the administrative burdens for state-owned enterprises. Subsequently, their corporate governance efficiency will be enhanced with greater participations of well-qualified shareholders and investors. More details and explanations about the policy recommendations are given in Chapter 7.

1.7. THESIS STRUCTURE:

The thesis comprises seven chapters including the introduction, which are arranged in accordance with the conceptual and theoretical frameworks and arguments. This chapter provides a synopsis of the research, essentially giving the introduction, background and justification of the study. It also includes the three research goals around which the study is developed. Furthermore, the most notable and transcendent contributions to the existing literature and policy advancement are introduced in the chapter. The content of Chapter 2 centres on the background of the research, with information about the overall economy, stock market, and corporate governance structure in Vietnam. In addition, the history of devlopment of state-owned and non-state-owned enterprises is discussed in more details, and the key challenges confronting them are stated. The final part of this chapter is to highlight the key economic and institutional areas between Vietnam and other emerging and advanced countries, and provides the raionales of why Vietnam’s case provides the promising findings to that current strand of literature.

Chapter 3 discusses the theoretical roots on which the current literature has investigated the impact of political connection on firm performance. In addition, a review of the empirical literature is also made in order to indicate the research gaps which this thesis aims at filling. Subsequently, the methodology chapter, Chapter 4, examines the selection of the data sample and the techniques employed to answer the research questions. Empirical Chapter 5 answers the question of how political connection influences firm performance, while empirical Chapter 6 explores the question of how the effect of political connection on the performance of state-controlled and non-state-controlled enterprises differs. The last empirical chapter 6 focuses on the empirical question of how the role of political connection has varied during regional institutional development.

CHAPTER 2: RESEARCH CONTEXT

2.1. INTRODUCTION:

The objective of this chapter is to provide a comprehensive overview of the socio-economic and institutional development in Vietnam by summarising Vietnamese economic history, the features of corporate governance, the development of state-owned enterprises and private enterprises, and how the regional instititional differences are important for business. Furthermore, the study also compares and contrasts the socio-economic and institutional environment of Vietnam relative to that of other emerging and advanced countries, thus showing the unique challenges in the business environment faced by the entrepreneurial firms. Therefore, this overview focuses on investigating and understanding the research background.

2.2. HISTORY OF THE VIETNAMESE ECONOMY:

In 1954, the country was splited into two regions, the North and South, with the 17th parallel being the common border. As a result of this split, a centrally-planned economy was adopted in the North, with state-owned organizations and cooperatives coming into existence, but without private business entities. On the other hand, South of Vietnam adopted a market economy, in which corporate organisations such as partnerships, limited liability associations and joint-stock companies were developed. In 1975, the country was reunified and the centrally-planned command economy was adopted in both regions of Vietnam, but with the absence of private business entities (Tran et al., 2017). Although South of Vietnam, with US financial backing, had a better pace of economic development than other South-East Asian countries, and even Asian countries, the imposition of a central planning economic system in the whole country after the war ended has slowed down the economic development of Vietnam (Fforde, 1994). This resulted in the systematic problems within Vietnamese society, which threatened the survival of the Communist Party political regime (Brezis and Schnytzer, 2003). In response to its potential collapse, the Vietnamese government started to adopt an economic reform program in 1986, known as *Doi Moi,* aimed at gradually abandoning the Soviet-type centrally-planned economy in favour of developing a market-based mixed economy was developed with the goal of boosting economic growth in the whole country (Fforde, 2019). The purpose of this economic system was to advance the productive forces of the economy, developing a steady technical-material base for moving forwards the socialist economy market, and to allow Vietnam to better join the world economy (Fforde, 2019). Unlike other emerging and advanced countries, Vietnam has therefore had a much shorter market economy history, as it had a central planning system until the early 1990s.

On the other hand, the model of economic development in Vietnam is a socialist-oriented market economy[2], which differs from the true market economy model in other emerging and advanced countries (Vu et al., 2015). In particular, the model is a market-based multi-sectoral commodity economy, including the various productive forms and means of private, collective and state ownership. However, the state sector and collectively owned enterprises play a decisive role in the economy, thereby indicating that although the private sector has been allowed to join the market, the state economic sector still remains a leading force and controlls the resources in the economy. In addition, some vestiges of the central planning mechanism continue to exist in some aspects of economy, as well as the strong government intervention in the economic activities (Vu et al., 2015). Vietnam's socialist-oriented market economy has some features similar to the Chinese socialist market economy, such as the predominance of state-owned enterprises, the co-existence of a private sector, a single-Communist party political system, and the implementation of five-year economic plans (Khuong, 2015). However, in contrast to the Chinese model, the Vietnamese system is more precisely characterised as a transitional economy towards socialism, not as a form of socialism or even market socialism which builds socialism as a long-term process. In line with Marxist theory, socialism will only have been recognised to have emerged once Vietnam's productive forces have adapted to meeting the preconditions of a socialist market economy. In other words, Vietnam had a fragile

[2] The socialist-oriented market economy is line with the classical Marxist view of economic development and historical materialism, in which socialism can only emerge once material conditions have been sufficiently developed to enable socialist relations.

industrial and productive foundation to thrive towards a socialist market economy (Fforde, 2019). This is because following decades of war, US bombing and destruction on a massive scale, the division of the country, the Chinese invasion, the decade-long Cambodian war and international embargoes, the Vietnamese economic base was in ruins, whilst China conducted economic reforms following 30 years of bureaucratic-socialist development in conditions of peace, accumulating a surplus and a sufficiently strong industrial foundation for developing a socialist market economy (Khuong, 2015).

In terms of the economic development, like most of the emerging Asian countries, Vietnam has adopted an export-driven growth, backed by a massive inflow of foreign direct investment, which particularly contribute to the majority of Vietnamese exports. This has spurred the country's rapid integration into the world economy despite an American embargo on the country being in place until 1994. Therefore, one of Vietnam's greatest achievements has been its successful entry into the World Trade Organization (WTO) in 2007, an opportunity which has allowed the country to increase its export-driven industries (OECD, 2013). This international integration is the outcome of a combination of economic liberalism, improved market access to industrialised countries, and pro-active public policies (World Bank, 2011). However, the domestic exporting forces undoubtedly continue to contribute to the total value of exports, which include traditional manufactured products encompassing garments, fishery, rice, and coffee. With the substantial efforts made to boost its economy, Vietnam is now among the highest GDP growth economies in the world and has been one of the fastest-growing countries in Asia in recent years (VCCI et al., 2017). Compared to other emerging countries in the region, Vietnam's industrial infrastructure (i.e, its supporting industries) still remains weak, which makes it difficult to attract the FDI investments based on the highly developed technologies. Therefore, the contribution of domestic enterprises to the global supply value chain seems to only constitute a relatively modest share (Wirjo and Cheok, 2017).

With regard to the history of the Vietnamese capital market, during the times of the central planning system and up until the 1990s, Vietnam virtually lacked a complete capital market, and the distribution of capital in the market was largely susceptible to the government discretion. In particular, loans or capital were mainly distributed to the state-owned enterprises via the state-owned banks or the Vietnam Developmental Bank (Tran et al., 2008). Along with the economic reform, the authorities also determined to upgrade the capital market in Vietnam in their roadmap for integration into the international market. For instance, the capital market needed to be upgraded to become more liberal and market-oriented, and to enable all the domestic companies to have equal and easy access to capital flows, especially from the foreign investors and institutions. More importantly, the government also expected that an effective capital market would expedite the equitisation process of state-owned enterprises (Nguyen et al., 2016). As a result, the Vietnamese stock market, known formally as the Securities Trading Center (STC), was founded in Ho Chi Minh City on 28 July 2000. In July 2007, the STC was officially transformed into a stock exchange, the HOSE. Previously in March 2005, the HNX had also been established. While the HOSE is seen as the official stock exchange, mainly the trading equities and bonds of listed firms, the HNX is seen as the trading floor for government bonds. Additionally, the companies trading on the HNX are mostly those that do not meet the requirements for being listed on the HOSE. In comparison with the capital markets of other emerging and advanced countries, Vietnam has therefore a much shorter history of market economy-oriented capital market sector development. However, the size and quality of the capital market in Vietnam are relatively small and under-developed respectively compared to other economies, with the market being charaterised as pre-emerging. The products on the exchanges are undiversified, consisting of stocks and government bonds, with few investment fund units being listed. Furthermore, there is a lack of professional long-term investors, such as investment funds, retirement funds and insurance companies, with the majority of participants in the market continuing to be individual investors with the short-term investment tastes and the herd behaviour, resulting in the market volatility. Finally, understanding of shareholder rights in the corporate governance issues in listed companies seems to be limited (Nguyen et al., 2016).

2.3. CORPORATE GOVERNANCE REFORM IN VIETNAM:

Along with the development of its capital markets, Vietnam had no specific sets of corporate governance until 2005s. In general, the Enterprise Law of 2005 and the Securities Law of 2006 are the two key laws which form the governance structure of Vietnamese corporations. In March 2007, the Ministry of Finance also released the Code of Corporate Governance for Listed Companies (hereafter the "Code"). According to Le Minh and Walker (2008), this Code is based on OECD corporate governance principles, and is mandatory, and so not a voluntary code of corporate governance as in developed economies. However, they are highly fractional, overlap, and not unified, which results in ambiguities when applying them (Lien and Holloway, 2014). Compared to the corporate governance practices in other emerging and advanced countries, Vietnam's corporate governance generally remains in its infancy. The governance system is being converted from the law-based system of Continental Europe (i.e, the Germanic model) to the Anglo-Saxon model. The adoption of this Anglo-Saxon model in Vietnam means that the existing governance structure remains, but some governance initiatives adopted from the OECD codes of best practices are incorporated into the structure (Lien and Holloway, 2014).

In general, the governance structure in Vietnamese listed firms comprises the Board of Management (BoM), the Supervisory Board (SB) and the many sub-committees under the BoM. The BoM and the SB members are appointed by, and report to, shareholders at their annual and extra general meetings. This unique structure is also called as the 'modified two-tier/dual board' or the 'unitary board with supervisory board'. In short, the existing governance arrangement in Vietnam is a mixture of the Germanic and the Anglo-Saxon models (Tam and Thi, 2018). Whilst the BoM has characteristics common with boards in Anglo-Saxon countries, including a mix of executive director and independent/non-executive directors, the SB consists exclusively of non-executive members with the task of monitoring the BoM. This unitary board with a supervisory board structure is similar to the standard two-tier board in Germany and the Netherlands in terms of the separation between supervision and management. In short, the BoM performs the strategic role, while the SB performs the governing role.

However, the SB in Vietnamese listed companies differs from that in the German setting in several ways (Tam and Thi, 2018). First, while a German SB is responsible for consulting and supporting the BoM in strategic decision making processes, that in Vietnam is not obliged to make or approve the strategic decisions. Second, the SB in Vietnam is not considered to be as important as that in the German system. The German SB is entitled to appoint and dismiss the members of the BoM and even accuse them in court of harming the company's interests in the court. Nevertheless, such important SB rights are not explicitly stated in Vietnamese corporate laws and regulations. Although the SB in Vietnamese public firms may make a request, either directly to the State Securities Commission (SSC) of Vietnam or other state authorities, if any of the members of the BoM breach the law or company Charter, it has inadequate power to prevent the BoM from conducting wrongdoings and risking the interests of company shareholders and other stakeholders. This is a major obstacle for the SB in respect of monitoring management. Third, while employees in Vietnamese public companies are not legally allowed to have a seat on the SB, shareholders and employees have the equal number of seats on the German equivalent.

In Vietnam's effort to apply the international standard of corporate governance practices, *the Code*, as stipulated by the Revised Law on Enterprise 2014, is aimed at promoting the separation between the positions of CEO and Chairman in listed companies in the regulations on Board of Management. This was not stipulated in the first Law on Enterprise 2005, which stated that a company could have a dual CEO-Chair if its general meeting of shareholders decided on this (Minh and Walker, 2008). In fact, *the Code* requires at least one-third of the BoMs of listed companies to be independent, although there remain ambiguities in interpreting the board independence. In addition, the re-appointment of independent directors is not limited to a defined number of years. *The Code* also does not stipulate the responsibilities and obligations of the independent directors.

Despite the progresses in corporate governance practices in Vietnam, the code for corporate governance in Vietnamese listed companies continues to have a low-quality mechanism for minority investor protection, compared to the corporate governance codes in other emerging and advanced countries (Tran et al., 2017). In particular, little opportunity is given to minority shareholders to nominate a member of the board to supervise insiders, to vote or to decide on key company matters of the company in the shareholders' meetings or to request an extraordinary general meeting of shareholders (GMS). Because of the application of cumulative voting rules, controlling or powerful blockholders are able to proactively devote or distribute their voting rights to the preselected candidates on the board. Therefore, these nominated directors may no longer be independent from the controlling shareholder(s). Moreover, the authorities also impose few regulations on unfair related-party transactions at the expenses of minority shareholders. In other words, in the case of unfair related-party transactions undertaken by controlling blockholders, the interests of minority shareholders are less likely to be protected by the existing regulations (Lien and Holloway, 2014).

2.5. THE STATE-OWNED ENTERPRISES IN VIETNAM:

Unlike the other emerging and advanced countries, state-owned enterprises are playing a vitally important role in the economic reform in Vietnam during the transition period from a centrally-planned to a socialist-oriented market economy. Due to the ideological and political reasons, state-owned enterprises are still deemed to be the main driving force in the economy and the government exercises tight control over the allocation of resources in favour of them (O'Toole et al., 2016). However, one of the central tenets of economic reform was the equitisation process with the purpose of commercialising state-owned enterprises and improving their operational efficiency (Hakkala and Kokko, 2006). In contrast to the rapid privatisation process of Eastern Europe and the former Union of Soviet Socialist Republics (USSR), Vietnam has adopted a gradualist approach, which leaves the state sector to remain unchanged, but allows other societal members to participate in the economy (Brezis and Schnytzer, 2003; Khuong, 2015). In other words, the adoption of such an approach in Vietnam will prevent state assets from lying in the hands of the interest groups, thereby resulting in the systematic collapse of the political regime. State-owned enterprises consist of independent state-owned enterprises and state-owned general corporations operating under the SOE Law of 2003 and the Enterprises Law of 2005. While independent state-owned companies are small-and medium-sized SOEs under the administration of various line ministries or provincial governments, state-owned general corporations are large-sized SOEs specialising in strategically important sectors either under the administration of the Prime Minister or other line ministries or provincial governments[3]. In general, Vietnamese state-owned enterprises differ from Korean *chaebols* in that their main intra-group ownership structure is based upon the mother-subsidiary relationship, also known as the pyramidal ownership structure (Kim et al., 2010).

In the roadmap for integration into the World Trade Organization (WTO) and application of the international principles of OECD into the corporate governance practices, Vietnam faces the pressure of splitting both state roles as the owner of the state-owned enterprises and regulator of the economy (OECD, 2014). In 2005, Vietnam therefore established the State Capital Investment Corporation (SCIC) in order to transform the shares of ownership in many state-owned enterprises from the various types of line ministries and provincial governments to SCIC[4]. In its mission statement, SCIC is considered to be an active shareholder that maximises the value of its portfolio companies. Vietnam has also embraced the operational models of state capital supervision agencies of other countries, namely Singapore's Temasek and Malaysia's Khazanah, into the model of SCIC. Unlike these agencies, the majority of the SCIC companies consist of small-and medium-sized state-owned enterprises (Kim et al., 2010).

[3] Strategically important industries consist of (i) post and telecommunications, and information technology; (ii) ship building and maintenance; (iii) generation,, transmission and distribution of electricity; (iv) exploration, processing, and distribution of gas and oil; (v) surveying, exploration, and processing of coal and other minerals, (vi) clothing and textiles, (vii) rubber planting and processing; (viii) fertilisers and other chemical manufacturing; (ix) real estate investment; (x) construction and mechanics; (xi) finance, banking and insurance, and (xii) other industries factors according to the decision of the Prime Minister.

[4] SCIC itself can also be identified as a general corporation under the Prime Minister.

Both Vietnam and China have put much effort into initiating SOE reforms and carrying out industrial policy. Although China is still confronting significant challenges in these areas, its initiatives have been more successful than those of Vietnam (Khuong, 2015). In particular, China's SOE reforms entail more commitments and strategic efforts to strengthen market forces, modernise corporate governance and promote global competitiveness (Perkins and Anh, 2001). In other words, China has been more committed to supporting domestic business in becoming a leading global players. The China's SOE managers thus focused mainly on making profits rather than on pleasing their government and party superiors (Perkins and Anh, 2001). As a result, the privatisation process in China was characterised by certain features of similar processes in market economies, in spite of the large stake held by the government.

In contrast, the pace of actual privatisation (also known as equitization) in Vietnam is considered to be slow. First, over the twenty years since the equitisation process started in 1992, less than 15 percent of state ownership has been transferred from the government to other shareholders (Khuong, 2015). Second, SOE reforms in Vietnam have not resulted in less favouritism being shown towards them. SOEs generally have easy access to credit supplied by state-owned banks, with 20 or 25 percent of SOE debts directly or indirectly backed by the government (Malesky and Taussig, 2009). Third, the governance of SOEs has not been adequately modernised, thus facilitating their expansion into non-core business areas via speculative and rent-seeking motives (Nguyen, 2016). The inefficiency of Vietnam's SOE reforms has arguably resulted in the stagnation of economic growth. The collapse of SOEs such as Vinashin[5] and Vinalines[6] led to the arrest of their entire management teams for mismanagement and corrupt practices, which became to be seen as a typical example of the inefficiency of SOEs (OECD, 2014). In particular, the government was willing to make major interventions in order to rescue Vinashin after it went bankrupt with massive debts. It is therefore worth noticing that state-owned enterprises have been

[5] Vinashin (Vietnam Shipbuilding Industry Corporation) is Vietnam's sole state-owned enterprise in the shipbuilding industry.
[6] Vinalines (Vietnam National Shipping Lines) was established as the sole state-owned enterprise specializing in shipping, ports, ship repairment, marine services and logistics.

practically exempt from the disciplinary influence of the capital market, or from the threat of bankruptcy, because the government was committed to rescuing them from the state budget. Furthermore, SOEs have less autonomy over their operations as a result of being required to pursue political or social goals, thus compromising their profit-seeking goals (Khuong, 2015).

2.6. THE NON-STATE ENTERPRISES:

The private sector was officially recognised as an economic force in 1986 when, at its Sixth National Congress, the Communist Party of Viet Nam declared that " From now on, private sectors are allowed to utilise capital, technical and managerial knowledge for conducting business in some industries". Since then, a legal framework and institutions have been designed to enable the development of private companies. In 1990, the Private Enterprises Law offered a legal basis for the sole proprietorship, whereas the 1991 Company Law mainly applies to limited liability and joint-stock companies. Nevertheless, private ownership, the fundamental pre-condition for a private sector to thrive, was only officially acknowledged in the constitution of 1992 and not incorporated into the 1995 Civil Code. In other words, private ownership was only acknowledged once the sector was playing an increasingly important role in the economy. A major breakthrough for private enterprises in Vietnam was the proclamation of the Enterprises Law in 2000 (Tran et al., 2008), which significantly simplified the establishment of private firms by abandoning administrative difficulties. This resulted in an immediate marked increase in registered private firms.

Despite the legitimate recognition of the private sector in the economy since the initiation of the "Doi Moi" programme of economic reform, the sector has still received less attention from the government as a whole because of the socialism legacy in Vietnam (OECD, 2013). To be more specific, the Vietnamese state's connections with the private sector have been shown to be weak and fragile. Therefore, the domestic private sector has been subject to discrimination, despite being the most important contributor to employment and growth (Tran et al., 2008). This may be in contrast to the successful models of other Asian emerging and advanced countries, namely Taiwan, Singapore and South Korean, who consider the development of private enterprises as a major force in their economic development. As a consequence, it is generally accepted that, unlike other emerging countries, the Vietnamese state did not have specific government programmes to deliberately develop its domestic private sector during the different phases of the economic reform. With a Confucian-based cultural heritage, a mix of Communist political and economic ideology, and a high level of collectivism, relationships or connections serve as a critical element in the success of business in Vietnam (Mai et al., 2009). It is thus argued that such a perspective is increasingly reinforced in the circumstances, in which the private sector confronts state discrimination. Studies on Vietnam by Nguyen et al. (2009) and Malesky and Taussig (2009) have shown that enduring relationships with government officials may enable private enterprises to reduce such discrimination and increase their legitimacy in Vietnam's business climate. Such connections may be conducive to their access to the sources of credit, mostly in the control of the state-owned commercial banks, and to remove the regulatory hurdles faced by them (Le Ngoc and Nguyen, 2009).

In parallel with economic reform towards a socialist-oriented market economy, the Vietnamese central government was also urged to undertake a decentralisation process. It should be noted that the Vietnamese central reformers were willing to transfer the government authority from central to provincial and local levels in the 1990s in order to encourage the government officials at these levels to foster the provincial economic development (Anh, 2016). After the decentralisation reform, provincial and local governments have been able to act as regulators of their regional economies. They have also been able to release business licenses, encourage regional business development, resolve business disputes, and enact tax policies (Jandl, 2013). As a result, the decentralisation process has granted the provincial governments more autonomy and privileges in enacting provincial or local pro-economic policies in the favour of the regional business climate. After Vietnam's rush to open up its economy to the outside world and after receiving a massive inflow of foreign direct investments, the process has been increasingly promoted (Vo, 2009). In general, the provinces located in the southeast and southern regions of Vietnam have a more liberal business environment and pro-market institutions than other Vietnamese regions (Perkins and Anh, 2009). A few reasons have been offered to account for the hetereogeneity in the business environment between regions. First, the historical capitalist legacies of the former Republic of Vietnam may be a critical basis for establishing a post-war market economy in those provinces (Sanders, 2014). By virtue of its former market economy fundamentals, a liberal business envrionment was created for the market, which promptly began to grow after the government initiated the economic reform, whilst there was a lack of such a mechanism in Northern provinces due to the former existence of a centrally-planned economy (Sanders, 2014). It is worth noting that in the early stages of their development between 1990 and 2000, the majority of non-state-owned enterprises in Vietnam were family-owned small or micro enterprises, mainly focused in the southern region of the country and specialised in the basic goods, such as food, clothing, detergents and other staples (Kim et al., 2010). It has thus been argued that there existed a group of unrecognised private enterprises in the South during the period of central planning which began to emerge after the state allowed the market participation of this sector.

Secondly, under the decentralisation mechanism, local governments may be more dynamic in local institutional arrangements, thus further facilitating local economic development and formulating a regional market economy (Thanh and Canh, 2020). According to Malesky (2004), the provincial leaders in the southeastern regions were generally the fence-breakers[7] because they were willing to experiment with the unprecedented policies in order to level the business playing field, develop the infrastructure, and attract FDI inflow. As a result of this successful experimentation, the southeastern provinces had a highest economic growth and contributed three-quarters of GDP to the economy (Turner et al., 2019). Furthermore, despite being exposed to the discrimination of the central government in the country as a whole, the private sector may have been more developed and had more equal treatment relative to state-owned enterprises within these provinces

[7] Fence-breaker is defined as provincial leader that pioneer institutional reforms.

(Anh, 2016). According to the complied figures on the website of the *Provincial Competitiveness Index*, which operationalises the quality of economic governance by provincial authorities across sixty-four provinces, the southeast and southern regions also have higher average PCI scores than other parts of Vietnam[8] (Sanders, 2014). High PCI-scoring regions often have a low level of challenges from red tape, corruption, or other contraints because of their strong and effective legal and administrative institutions (Huong and Cuong, 2019). This also discourages private enterprises from pursuing rent-seeking practices by bribing or forming the alliances with provincial government officials (Rand, 2017). In contrast, some provinces located in the northest and central parts of Vietnam have the lowest PCI scores, which implies less efficient economic governance (Usaid et al., 2016). In these regions, it is argued that the bureaucrats display a low degree of public administration, and even become more corrupt, thereby suggesting that the formal and informal relationships with provincial government officials are necessary for private enterprises to remove the constraints on them. However, some exceptional cases in the Northern and Middle provinces, such as Vinh Phuc, Bac Ninh, and Da Nang, also performed very well in the economic governance rankings, becoming the lighting hotspots in the overall picture of Vietnam's business environment (Anh, 2016). Taken together, the development of the private sector might be hetereogenous across Vietnamese provinces. In particular, the effective policy experimentation in certain provinces has enabled their development and built a leveling playing field for all sectors. On the other hand, the inefficient and rigid adoption of policy experimentation and the poor determination of leaders in other provinces has slowed down their economic performance and created the hurdles for private enterprises. This has resulted in the holes in the regulatory system and given rise to the self-interested conduct of bureaucrats to the detriment of social welfare. In order to survive in those regions with weak economic governance, development of robust political connections may be essential for the private enterprises.

[8] According to the newspapers from Asia Pulse Pty Ltd. (2006) and Athena Information Solutions Pvt. Ltd. (2019)

Both Vietnam and China have undertaken a decentralisation process in the transition from a centrally planned economy to a market-based one. However, the outcome of the process in Vietnam has fallen short of the government's expectations and has been deemed to be less successful than that of China (Painter, 2008). This is due to the fact that Vietnam's decentralisation process is limited to the political, rather than fiscal and administrative, decentralisation, so preventing some provinces from achieving breakthroughs in socio-economic development (Anh, 2016). Secondly, the lack of connection and regional coordiation across provinces has induced unhealthy competition between provinces, thereby rendering the decentralisation process inefficient. On the other hand, China has fewer provinces and province-level cities/regions, each of which is typically fifteen to twenty times larger than the average Vietnamese province, which has led to healthier national coordination and stronger inter-correlation between them (Khuong, 2015). Furthermore, the Chinese provincial leaders were those who conducted the fence-breaking activities before the economic reform more proactively, and subsequently continued to sustain the reformative spirit afterwards (Malesky, 2004). Despite the disparity in the outcomes of economic and institutional reform, Vietnam and China have somewhat similar characteristics regarding their political and economic paths. The dominance of state-owned enterprises in the economy, the legacy of socialism and the influence of Confucian-based culture are common characteristics in both countries which is conducive to the existence of political relationships (Fan et al., 2007; Malesky and Taussig, 2009). Whilst political networks in China are deemed to be a type of Guanxi-based culture, they are key to the success of any business transaction in Vietnam (Dinh and Calabrò, 2019). Through the decentralisation process, certain provinces in both countries have developed successful fence-breaking policies in economic and political areas, and created a level playing field for both SOEs and non-SOEs. As a result, non-SOEs in those regions with a more liberal market economy may have fewer capabilities to build political relationships with provincial bureaucrats and otherwise (Nguyen et al., 2020; Zhou, 2014).

2.8. SUMMARY OF THE CHAPTER:

This chapter has outlined the history of the Vietnamese economy, and the development of the capital market and corporate governance. Moreover, the current state of private enterprises and state-owned enterprises has been referred to. The Institutional Difference Hypothesis (IDH) has been efficiently adopted by the literature to compare institutional disparities in advanced and emerging countries (Julian and Ofori-Dankwa, 2013). The hypothesis suggests that institutions supporting the efficient functioning of product, capital and labour markets are lagging behind in emerging economies compared to those in advanced countries (Khanna and Rivkin, 2001). Additionally, the IDH proposes that institutional differences lead to unique conditions that have a significant effect upon desirable business activities and strategies (Guillén, 2000). Given the significantly varying conditions in emerging countries, it is reasonable to apply this hypothesis to differentiate Vietnam from other emerging and advanced countries. The focus on Vietnam is motivated by the specific group of conditions in the country's context which is not present in other emerging and advanced markets. Therefore, the results obtained in previous studies on the regulation-efficiency link may not be appropriate for Vietnam's transitional route to a market economy. Consistent with Dinh and Calabrò (2019); Peng (2003); and Rajwani and Liedong (2015), the firms may behave differently in different institutional contexts and therefore a study focusing upon firm efficiency in Vietnam will be able to provide new insights into this relationship. Table 2.1 summarises the important characteristics of Vietnam that have been mentioned in this chapter. The table also compares and contrasts the Vietnamese context with other emerging and advanced countries.

TABLE 2. 1: THE CHARACTERISTICS OF VIETNAM

	Vietnam	**Emerging and advanced economies**
1. Political regime	During the period of the Vietnam war, the country was split into two parts, with two different political regimes. The north adopted the socialism, whilst the south embraced the capitalism. After the two regions were unified, Vietnam was one of the two countries in the world to adopt the unitary system of Communism in the whole country.	Multi-party political regimes.
2. History of the market economy	Vietnam has a much shorter market economy history as it had a central planning system until the late 1986s and early 1990s. However, it incorporates the classical Marxist view of economic development, leading to economic reform in moving towards a socialist-oriented market economy. This	They have much longer and better established true market economies which allow for equal multi-sector market participation.

	model is a key step in achieving the necessary economic growth and modernisation, while being able to co-exist in the contemporary global market economy and to benefit from global trade. The dominance of the state economic sector in the economy stems from ideological and political grounds rather than the obeying of market force.	
3. History of capital market sector development	Until the late 1990s, Vietnam did not have an autonomous capital market and all the capital distribution-related decisions were made centrally on ideological and political grounds. With the establishment of two stock exchanges based in Ho Chi Minh and Hanoi in 2000 and 2005 respectively, Vietnam adopted OECD principles into its	They have a relatively long history of market-economy oriented and developed capital market sectors, and better established corporate governance codes.

	institutional framework for corporate governance. In general, the CG code in Vietnam is still in transition to the western code and the size of the capital market is relatively small and undiversified.	
4. History of private economic sector development	The private economic sector did not enjoy legitimate recognition in the economy until the 1990s, when the economic reform occured. However, subsequently the sector has received unequal treatment relative to state-owned enterprises. The private sector still therefore remains underdeveloped.	The economic private sector is relatively more developed with a longer history of its development.
5. Integration Into The World Economy	Vietnam started the process of joining the world economy after the U.S removed the embargo on it in 1995. The country has been a member of the World Trade Organisation since 2007. Vietnam has	The majority have a much longer history of membership of the world economy and of being the members of the World Trade Organisation.

	therefore had a short period of access to the world economy.	

CHAPTER 3: LITERATURE REVIEW

3.1. INTRODUCTION:

The aim of this chapter is to build the conceptual framework of the phenomenon of corporate political connections, and thereafter to show the antecedents, the underpinning theories and consequences of such connections. Therefore, the chapter discusses the theoretical and empirical studies conducted to date, with the aim of investigating the relationship between corporate political connections and firm performance. More specifically, the first part of the chapter is relevant to the various definitions and dimensions of political connections. It has long been acknowledged that the countries' political heterogeneity might play a crucial role in forming the definitions of political connection. The development of such definitions of political connection is especially important for scholars and policy makers due to the benefits of various channels of political connection for companies. This helps to construct the backbone of the definitions and the measurements of political connection used in the empirical chapters of this study. The following section of the chapter explains the antecedents of political connections, and also outlines the mixed consequences of political connection for business activities, and the channels through which such connections matter for firm performance. The final part of the chapter comprises the main review of the empirical literature, and shows the limitations and research gaps of previous research, which this study aims to fill in.

The structure of the chapter is as follows: Section 3.2 gives the definitions and meanings of political connections; Section 3.3 explains the antecedents of corporate political activity, which are divided in accordance with industry, and institutional level; Section 3.4 discusses the underpinning theories; Section 3.5 presents a summary and limitations of the literature.

3.2. THE DEFINITIONS AND MEASUREMENTS OF CORPORATE POLITICAL CONNECTIONS:

Ideally, the first step in the development of a construct is its definition and the common language that helps locate it across relevant disciplines. Numerous definitions of political connection can be constructed from both academic and practitioner-based research.

However, there appears to be a lack of a universal definition of the construct, resulting in chaotic approaches to its understanding and development in the academic world.

3.2.1. THE DEFINITIONS OF POLITICAL CONNECTION:

On a basis of the resource-based viewpoint of the firm, its competitive market advantage in its markets stems from its valuable resources that are not easily captured by competitors (Jay Barney, 1991). Some of these resources may be intangible in nature and idiosyncratic to the firm, and may have been developed over a long period of time. Many of a firm's resources are relationship-based, as the earning potential of these assets relies on the relationships a firm has with its stakeholders (Barney, 1991; Wood and Jones, 1995). Similarly, the political connection of a firm(s) is one type of its intangible relational assets, which shows personal connections with government officials, and which has a dual impact on the availability of resources, as well as on firm performance. From the economic literature, the definition of political connection can be surmised to be a personal relationship between a politician and a particular firm, either via cronyism or shareholding or directors (Fisman, 2001; Johnson et al., 2003). Desai & Olofsgård (2011) develop this phenomenon as the arrangements through which the firms or groups have close relationships with incumbent political authorities, thus obtaining economic favours.

In the field of political science, political connections are recognised as rent-seeking activities in which individuals or firms seek preferential treatment from states by using their resources to lobby or to bribe government officials. In this way, Khan & Jomo (2000) pinpoint the circumstances in which these activities can be categorised. One typical examples is when a firm attempts to influence the state (which enforces rights and contracts) by lobbying, bribing, or through other types of political influence, with the gain from such rent-seeking activity directly depending upon the spending power of the firm. In this scenario, rent-seeking activity is initiated and created by the state, which no longer passively plays an influencing role, but rather a rent-seeking role (a typical example is the role of state-owned firms in Russia and China).

3.2.2. THE DIFFERENT TYPES OF POLITICAL CONNECTION:

It has been observed that some existing studies employ the different categories of political connection to gauge its effect on firm performance. This section is based on the study of Wong et al. (2018) in discussing the various types of political connection because of the author's comprehensive inclusion of definitions of political connection made in previous studies. The first category of political connection is via the government-linked companies or government-owned enterprises (Cao et al., 2016; Wu et al., 2016). For clarification, Okhmatovskiy (2010) documents that government-linked or government-owned enterprises directly oversee and administer state resources rather than the ties to government, and that companies keen on having access to state resources may benefit from establishing ties to organisations responsible for managing state property. The second category of political connection is mainly linked to the board of directors, which means that a politically connected board director is defined as companies which have former government servants or politicians serving on its board of directors (PCON_BOARD). The majority of previous studies have employed this type of political connection when focusing on the effectiveness of appointing the politically connected directors to the board (Faccio, 2005; Wu et al., 2012; Bi et al., 2018). The third category of political connection is through business owners (PCON_BUS). In some studies, the political connection between business leaders and politicians (PCON_BUS) remains after the politicians have left their position in government (Malesky & Taussig, 2009; Bao et al., 2015; Carboni, 2017). The rationales of the business leaders for establishing political connections are to diminish the political risk/uncertainty and to acquire the government resources. The fourth category of political connection is mainly pertinent to the family members of government leaders (PCON_FAM). In accordance with Wong et al. (2018), a firm is defined to be politically connected via family members of a government leader if the immediate family members of the government serve on the board of directors or act as the shareholders of the company. This network is different from PCON_BOARD because the connection is characterised as a family relationship.

TABLE 3- 1: THE DIFFERENT TYPES OF POLITICAL CONNECTION:

Author (Year)	**The Types of Political Connections**
Faccio (2005)	Board of Directors
Fan et al. (2007)	Board of Directors
Khwaja & Mian (2005)	Board of Directors
Fan et al. (2007)	Board of Directors
Jackowicz et al. (2014)	Board of Directors
Wang (2015)	Board of Directors
Domadenik et al. (2015)	Board of Directors
Haveman et al. (2017)	Board of Directors
Li et al. (2017)	Board of Directors
Shi et al. (2018)	Board of Directors
Wu et al. (2018)	Board of Directors
Xu et al. (2015)	Family Political Connections
Leuz and Oberholzer-Gee (2006)	Family Political Connections
Fisman (2001)	Family Political Connections
Malesky and Taussig (2009)	Family Political Connections
Berkman et al. (2010)	Government-Linked Companies
Okhmatovskiy (2010)	Government-Linked Companies
Cao et al. (2016)	Government-Linked Companies
Sojli and Tham (2017)	Foreign Government-Linked Companies
Coulomb and Sangnier (2014)	Political Connection through Business Owner
Boubakri et al. (2012)	Political Connection through Business Owner
Li et al. (2008)	Political Connection through Business Owner

Faccio (2010)	Political Connection through Business Owner
Claessens et al. (2008)	Political Connection through Business Owner
Johnson and Mitton (2003)	Political Connection through Business Owner

3.2.3. MEASUREMENTS OF POLITICAL CONNECTION:

3.2.3.1. EXPLICIT AND IMPLICIT MEASUREMENTS OF POLITICAL CONNECTION:

In terms of the measurements of political connection, the question may arise as to what measurements of political connection can be applied to existing studies. Such measures are still being developed and each study contributes to the different aspects of definitions of political connection. However, Carboni (2017) divides the different definitions of political connection into two main categories, namely implicit and explicit measures. The term "explicit measure" would relate to the case of a current politician operating in a firm and/or a current businessman entering politics. For instance, Faccio (2005) defines a politically connected company as one whose large shareholders or top officers include: (a) a member of parliament; (b) a minister or head of state; or (c) someone closely related to a top official. Based on the definition of Faccio et al. (2005), Boubakri et al. (2008) cover the definition of political connection by taking into account the fact that at least one member of the firm's board of directors, supervisory board or largest shareholder is a politician, namely a member of parliament, a minister or any other top appointed-bureaucrat. Brockman et al. (2013) develop this definition of political connection as follows: (1) at least one of the company's top officers (CEO, president, vice-president, chairman of the board, or secretary) or large shareholders (any person directly or indirectly controlling at least 10% of the company's voting shares) is a member of parliament; (2) at least one of its top officers, large shareholders, or their relatives is closely related to a top politician or party; and (3) the company is closely associated with a top politician.

In contrast, the term “implicit measure” generally refers to the following cases: (i) affiliations/documented friendships/family networks between firms and politics; (ii) the political background of businessmen; (iii) firms’ degree of political connections or proximity to politics; (iv) firms’ campaign contributions to politics, (v) the association between ownership and contribution; and (vi) lobbying activity (Carboni, 2017). For instance, Coulomb and Sangnier (2014) document the friendship connections of the winning French candidate – Nicholas Sarkozy as a type of political connection because their political decisions may be driven by many determinants, including promises tied to campaign events, or personal connections.

Ferris et al. (2016) examine how the appointment of former politicians and regulators to boards of directors or management teams affects corporate acquisition activity and performance. Using the US context, where the two primary agencies supervising merger activity are the Federal Trade Commission (FTC) and the Antitrust Division of the Department of Justice, Ferris et al. (2016) argue that firms can avoid regulatory delays or denial risks in corporate acquisition activity by hiring former officials with whom current government officials continue to maintain relationships. Therefore, they use the political background of directors on the boards of firms taking part in mergers and acquisitions in the United States to measure the political connection of the firms as follows: Their first measure, POL1, indicates whether the bidder has a former politician or industry regulator on its board or management team. Their second measure of political connectivity (POL2), shows whether a bidder employs a former politician, regulator, general, or admiral. In their last measure of political connectivity, (POL3), they define a bidder as connected if the firm has a former politician, regulator, general/admiral, or non-counsel lawyer on the board or management team. They include lawyers in this final measure of political connections because of their numerous interactions with Department of Justice officials.

In addition, Shin et al. (2017) established a much broader measurement of political connection based on the resource dependency viewpoint. Resource dependence theory is specifically relevant to how organisations' external resources influence its behaviour; the acquisition of external resources is an important aspect of both the strategic and tactical management decisions of any company (Pfeffer & Salancik, 2003). Therefore, Shin et al. (2017) suggest that since the government is one of the major external forces that exerts a significant impact on firms' operations and survival, firms would naturally try to forge relationships with the government by having board members with such resources. As a consequence, Shin et al. (2017) employed the resource dependence viewpoint in order to broaden other measurements of political connection by including judges, prosecutors, journalists, or social activists, as they play an increasingly important role in Korean economic and social contexts (Shin et al., 2017).

In many countries where institutional constraints are weak, politicians' intervention in business activities is more pronounced (Shleifer and Vishny 1994). Based on this standpoint, Fan et al. (2007) examined the role of government intervention in China's newly partially privatised firms, as property rights in China remain weak and the product and capital markets are far from liberalised, grabbing-hand theory predicts a strong negative relationship between government intervention and the performance and governance quality of firms. To proxy for government intervention, Fan et al. (2007) used the CEO's political connections, defined as those serving as current or former government bureaucrats, or in other words current or former officers of the central or local governments or the military, as a proxy for government intervention in the firm. Likewise, for a country with a single ruling-party such as Vietnam, Malesky & Taussig (2009) define a politically connected owner of an entrepreneurial firm as someone who is, or used to be, (1) a Communist Party membership, government official, or military officer; (2) an SOE manager; or (3) an SOE employee. Hung et al. (2017) examined the effect of banks' political connections on bank performance and risk in China. Using the definitions of political connection of previous studies in their study, they hand-collected information on

CEOs' professional background to clarify their political affiliations, and defined a CEO as having political connection if they were ex-governmental officials.

Li et al. (2008) examined the value of political connections for private entrepreneurs in China. They specifically aimed to analyse the role of affiliation with the Chinese Communist (the Party) in helping to improve the performance of private firms, and to delve into the specific mechanisms through which this political affiliation works. From their perspective, a distinct characteristic of China, which separates it from other transitional countries, is the continuing rule of the Communist Party and persistent ideological discrimination against private ownership, despite the dramatic reform of the economy. Party membership in China implies a measure of political status, and first and foremost, demonstrates an important connection with the only party in the country. In an environment marked by scepticism, mistrust, and discrimination towards private enterprises, being affiliated with the ruling party indicates congruence and trustworthiness. As Party members interact with government officials, bank managers, and managers of state-owned enterprises, they build up connections with key political and economic characters. Moreover, membership of Communist Party and acquaintance with other Party members and government officials pave the way for the achievement of a higher political status, such as becoming a member of the People's Congress (Li et al., 2008). Therefore Party membership is considered to be an indicator of human capital or the ability of an entrepreneur to establish political connection with the ruling Party, because of the legitimate favours towards Communist Party Membership in the Chinese political system in eliminating the discrimination against private ownership. Similarly, Vietnam has a political system similar to that of China, with a ruling Communist Party. Malesky and Taussig (2009) define an owner or entrepreneur as being politically connected if he or she is a Communist party member.

3.2.3.2. INTENSITY OF POLITICAL CONNECTION:

Regarding the advanced measurement of political connection, it has been developed into a continuous index in many previous studies. For example, based on the benefits and costs of political connections in China, Chen et al. (2017) argue that business people should not be too distant from the government; but also should not get too close. In particular, they propose that the relation between political connections and firm value is more complicated than has been previously reported. They speculate that some connections are good for firm value, but that too many will have the opposite effect, with the co-existence of both positive and negative effects of political connections. To prove their hypotheses, they created a political connection index based on the administrative rankings of the political backgrounds of CEO, chairman and other directors on the board, on which a high political connection score demonstrated a strong political connection, and vice versa. Similarly, You et al. (2012) built an index to evaluate the political connections of CEOs on the basis of the two aspects of political experience and political identity in Chinese listed firms. There are three elements of CEOs' political experience: Whether they were from a government branch, whether they had worked for a state-owned bank; and whether they had leadership experience in a government-regulated business association. CEOs' political identity was assessed on two aspects: whether they were a deputy on the National People's Congress (NPC) or the National Committee of the Chinese People's Political Consultative Conference (CPPCC); and whether they had received the title of "model worker" or any other government reward. For each of the above five elements, a value of 1 was assigned if this is the case, and 0 otherwise, and an unweighted sum political connection index computed by aggregating these aspects.

Related to other emerging contexts, Fisman (2001) considered Indonesia as a unique institutional setting because of its highly centralised and stable political structure under the long-lasting reign of President Suharto. It was therefore possible to build a credible index of political connectedness. Fisman (2001) utilised a political connection index based on the Suharto Dependency Index (1995) developed by the Castle Group. This includes a numerical rating of the degree to which each of the 25 largest industrial groups in Indonesia depends upon political connections for its profitability, with the ratings ranging from 1 (least dependent) to 5 (most dependent).

With reference to developed economies such as the United States, Kim et al. (2012) used a political alignment index (PAI) of each state's key politicians' links with the ruling (presidential) party to represent local firms' proximity to political power. This proximity represents the degree to which the federal and state governments are linked to firms located in a particular state. Beyond the direct effect of political connections[9], the proximity of political power will result in "indirect" political connectedness, which firms passively seek to establish, because those located in a state with high political power proximity may be in a better position to receive the benefits of access to powerful political channels.

Additionally, even contributions either from business people or firms to political parties and committees should be defined as implicit connections (Ferguson and Voth, 2008). Claessens et al. (2008) improved upon the relatively crude measures of political connections often exploited in the non-US political connections literature by studying those that individual firms had made by contributing to election candidates' campaigns and the possible channels politicians employ to repay these contributions. Their data have three advantages. First, they are more objective compared with the data typically used in the literature in ascertaining whether there exists a connection between politicians and firms. Second, they allow the intensity of a connection to be measured instead of simply utilising an indication of its presence. Third, they permit analysis of whether connections matter for firm performance and access to finance, and how contributions are distributed across different types of candidates. Goldman and Rocholl (2006) also explored whether political connections were important in the United States, where there exists a well-developed financial market, as well as a strong legal system. By using data from the Center of Responsive Politics (CRP), Goldman and Rocholl (2006) took into account all the financial

[9] Direct political connections imply that a firm aims to establish active relationships with politicians through different corporate political strategies, such as personal ties, political contributions or lobbying expenditures.

donations made by companies to the Republican and Democratic Parties prior to the 2000 election, alongside the political background of directors, in order to define political connections.

Tahoun (2014) deployed a new measure of political connectedness, namely the year-specific association between the politicians' share ownership in a firm and the firm's contribution to the politicians' election campaigns. More specifically, this measure includes the level of ownership by politicians and outperforms all the previous measures by disclosing the award of private benefits to a firm. Previous measures of political connection (namely political spending) only showed one side of the politician-firm relationship and might not necessarily have included the investment made to access politicians, but simply the ideology of the company. Broadly speaking, unlike the previous political connection measures, Tahoun's measurement of the ownership-contribution link captures the extent to which politicians and companies show mutual concern for each other.

Specifically, such a measure indicates an association between share ownership by politicians or the state, and the contributions that companies make to election campaigns. From the viewpoint of Tahoun (2014), the ownership-contribution link constitutes a novel measure, as it details the extent to which politicians and companies mutually interact with each other. Tahoun (2014) examines whether a politician's stock ownership in a firm acts as a mechanism to utilise their quid pro quo relationship with it, and ensures that the politician will act in the firm's best interest. A further way in which a firm attempts to affect government decisions is through lobbying activities. More specifically, such activity is linked to companies' campaign contributions, suggesting that they do so to establish political networks (Akey, 2014). The table 3.2 summarises the measures of political connections developed in previous studies discussed in this chapter.

TABLE 3- 2: MEASURES OF POLITICAL CONNECTIONS IN PAST PAPERS

Author/s and Year	Types of Measure
Akey (2014)	Implicit measure
Amore and Bennedsen (2013)	Explicit measure + Implicit measure
Faccio (2005)	Explicit measure + Implicit measure
Khwaja and Mian (2005)	Explicit measure
Fan et al. (2007)	Explicit measure + Implicit measure
Boubakri et al. (2008)	Implicit measure + Explicit measure
Tahoun (2014)	Implicit measure
Claessens et al. (2008)	Implicit measure
Hung et al. (2017)	Implicit measure
Shin et al. (2017)	Implicit measure + Explicit measure
Kim et al. (2012)	Implicit measure
Fisman (2001)	Implicit measure
You and Du (2012)	Implicit measure
Ferguson and Voth (2008)	Implicit measure
Cheng and Leung (2016)	Implicit measure
Wang (2015)	Implicit measure
Malesky and Taussig (2009)	Implicit measure
Haveman et al. (2017)	Implicit measure + Explicit measure
Ferris et al. (2016)	Implicit measure
Zhou (2014)	Implicit measure
Wu et al. (2012)	Implicit measure
Chen et al. (2017)	Implicit measure
Habib et al. (2017)	Implicit measure
F. Liu et al. (2016)	Implicit measure
Wu et al. (2012)	Implicit measure
Markussen and Tarp (2014)	Implicit measure + Explicit measure

Ridge et al. (2016)	Implicit measure
Li et al. (2008)	Explicit measure
Sojli and Tham (2017)	Implicit measure + Explicit measure
Tu et al. (2013)	Implicit measure
Zhao and Lu (2016)	Implicit measure

3.3. ANTECEDENTS OF CORPORATE POLITICAL CONNECTIONS:

The interdependence of political and economic power strengthens the importance of political connections for businesses around the world. Firms attempt to develop such political connections, which subsequently increases their chances of success (Boubakri et al., 2008). In principle, both parties benefit from political connection: Politicians or the government grant rewards in the form of policies and privileges to firms based on their cooperation, while firms utilise these connections to obtain government favours or rewards to help boost firm performance (Yu et al., 2016). Previous studies have pinpointed various reasons for the establishment of firms' political connections, which can be categorised at the industry and institutional levels (Saeed, 2013).

At an industry level, industry structure, namely its concentration, the degree of competition and industry regulation are commonly identified determinants which have a profound effect on firm strategy in establishing political connection (Carboni, 2017; Haveman et al., 2017). For industries with a high level of competition and regulation, associated firms which face intense competitive pressure highly appreciate political connections when attempting to obtain protection and favoured treatment from the government (Haveman et al., 2017). Firms in highly regulated industries are often involved in matters of national interest (Cheng et al., 2016). Hence, competitive advantages emerging from political connections are greatest amongst regulated and state-dominated industries (Shleifer & Vishny, 1998; Carboni, 2017). Carboni (2017) found empirical support for this conjecture, and provides evidence that in administrative and regulated industries, politically connected firms are most common in highly regulated ones, and benefit from many competitive advantages which increase firm performance. Firms in concentrated industries have more incentives to establish political connections since they enjoy higher political rewards. This view is also similar to that of Haveman et al. (2017). During the economic transitions in China, the advantage of being politically affiliated has helped listed firms in more competitive industries to avoid economic uncertainty and boost firm performance.

At an institutional level, political connections may influence firm performance in both developed and developing markets. In an effective legal system, for instance, political connections complement formal contracts to help transaction work run smoothly. Where law enforcement is weak, informal relationships can act as a substitute to allow deals to be made (Cao et al., 2016). Fundamentally, dependence upon political connections is derived from the underdevelopment of formal institutions, which accordingly shows arm's length contracting to be untrustworthy. If regulatory governance is inadequate, informal systems, such as the embedding of economic and financial transactions in a network of social relationships, may be viewed as an endogenous response (Charumilind et al., 2006).

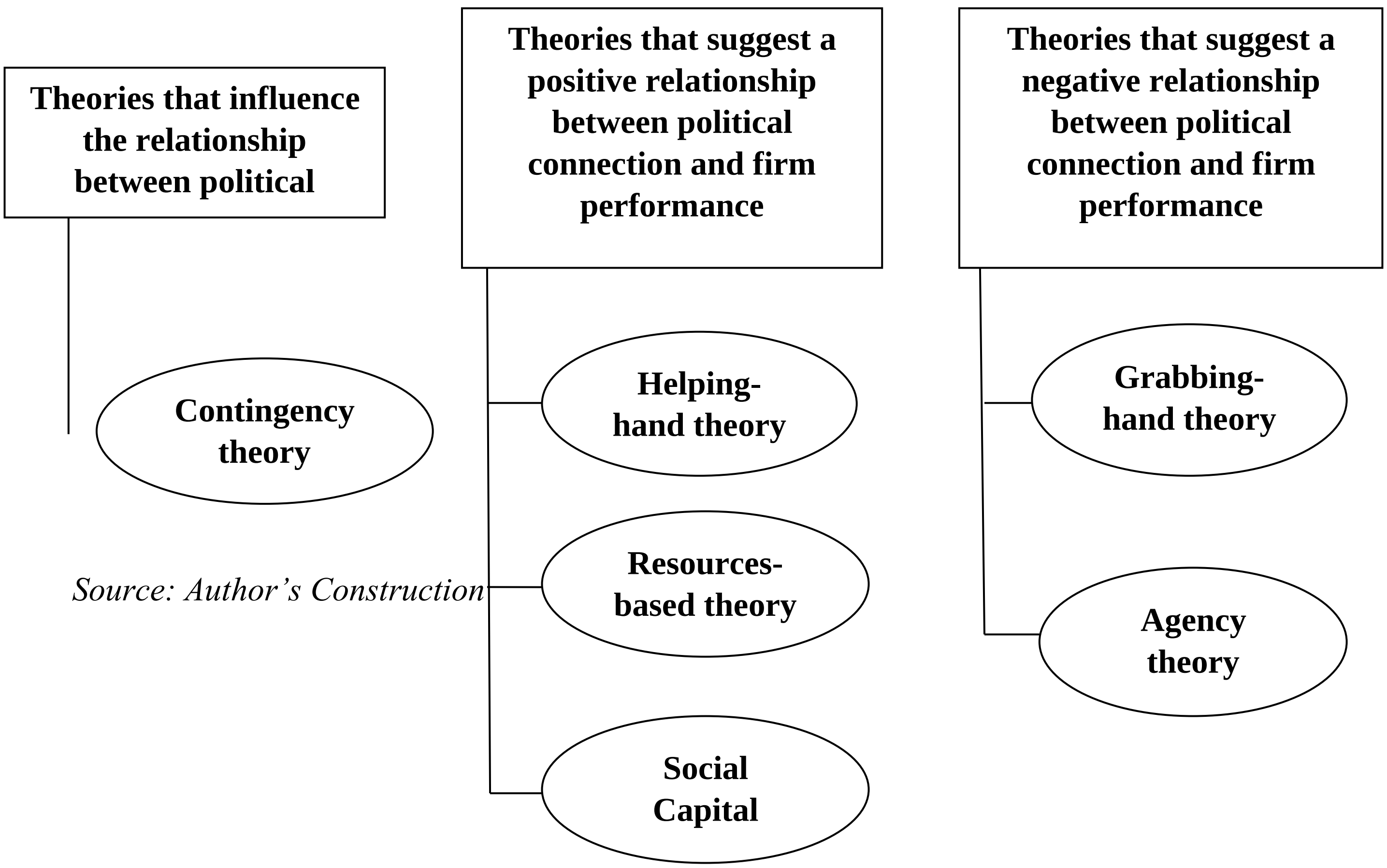
The extent and nature of political connections vary greatly across countries in accordance with their institutional development (Desai & Olofsgård, 2011). In advanced markets, for example, firms may utilise campaign finance, political action committees, and the 'revolving door' between lobbying firms and congressional staff offices to build political connections. In contrast, in less advanced countries, political influence is obtained generally via a combination of kinship ties, political alliances, or direct financial dealings between the owners and the politicians (Desai & Olofsgård, 2011).

In many developing countries, administrative restrictions upon economic activity are pervasive facts of life. Such restrictions facilitate the power of politicians to extend preferential treatment in terms of resource distribution and policy enforcement to firms with strong political connections (Hongbin Li et al., 2008). As a result, the political connections with politicians and government officials in such an environment help firms to overcome major obstacles regarding the conducting of their business efficiently.

3.4. UNDERPINNING THEORIES EMPLOYED IN THE LITERATURE ON POLITICAL CONNECTION:

This section discusses the positive and negative effects of political connection on firm performance, which are attributed to the helping-hand and grabbing-hand roles of government respectively. An explicit antecedent and theoretical framework for helping-hand and grabbing-hand governments is suggested, which will be the foundation for developing previous political connection studies in the following chapter.

FIGURE 3- 1: CATEGORISATION OF THE MULTI-THEORETICAL FRAMEWORK:



Source: Author's Construction

3.4.1. HELPING-HAND GOVERNMENT PERSPECTIVE:

Unlike the invisible hand notion of Adam Smith regarding the limited role of government, the helping-hand model begins with the notion that the wide scope of government or massive government intervention are necessary for effective functioning of the market (Shleifer & Vishny, 1998). Andolfatto (2004) summarises the helping-hand perspective of Shleifer & Vishny (1998), stating that the view is adopted by those who believe that markets may not be functioning very well. The view came into effect on the basis of the experience of the Great Depression, which was widely seen as a clear example of market failure. The helping-hand view argues for massive state intervention to 'help' markets work better in achieving the 'social good'. This help is typically illustrated in the form of taxing those activities that are perceived to be 'oversupplied' and subsidising those that are 'undersupplied'. Implicitly, the view is that government officials should have the willingness to intervene on behalf of the 'social good'. The helping-hand model contradicts that of invisible-hand, in that the supporting-market mechanism is weak, and faith in the market is replaced by faith in bureaucrats, in the belief that government intervention will help the market to function well (Shleifer & Vishny, 1998).

As previously discussed, a high degree of uncertainty in the business environment and underdeveloped legal and market institutions are the antecedents of the helping-hand government model (Berkman et al., 2010; Zhou, 2013). Institutions can be either informal or formal. The rules of informal ones are based on implicit understandings and are not accessible through written documents, nor necessarily specified through formal positions; on the other hand, formal institutions have written rules which are determined and executed through formal positions, namely authority or ownership (Zenger et al., 2002). In informal institutions, political connection is considered to be one of their characteristics, as state intervention has become common in many countries (Cao et al., 2016). In such cases, building relationships with government officials may compensate for the lack of sound formal institutions. Theoretically, political connections are able to facilitate economic activities and performance in less developed formal institutions because they help many firms to obtain key resources and enjoy private protection of property rights (Zhou 2013). Therefore, the "helping hand" perspective in political connection is that firms may use their political networks to gain more legitimacy in the environment with low-quality institution and acquire favourable resources from government in order to facilitate their operations (Nguyen et al. 2009; Liu et al. 2016). Resources dependence theory explains that political connections help a firm to obtain key valuable resources and to resolve external uncertainties (Pfeffer et al. 1978; Wu et al. 2012). Therefore, the helping-hand role is more pronounced in emerging/transition countries than developed ones because the institutional and market development of the former remains underdeveloped and lags behind that of developed countries (La Porta et al., 1998; Faccio et al., 2006; Boubakri et al., 2008). In addition, enforcement of the rule of law and contracts and property rights are not adequately guaranteed, which results in a risky legal environment for enterprises. For this reason, the relationship between enterprises and government through managerial ties becomes more important, as political ties may create competitive advantages for firms if they receive more favourable treatments than competitors. Therefore, building political networks in management is a prerequisite in the weak institutional and market settings of developing countries (Cao et al., 2016).

3.4.2. GRABBING-HAND GOVERNMENT PERSPECTIVE:

The invisible-hand viewpoint claims that government should play a minimal role in society whereas that of the helping hand provides evidence of why governments should intervene in the market place (Andolfatto, 2004). However, governments may pursue goals that are different from the maximisation of social welfare and individuals working in the government may pursue their own goals instead of overall social goals. Dictators utilise their political strength to maintain their position in the office, provide resources to political supporters, harm political challengers, and to enhance their own assets to the detriment of public welfare or government aims in pursuing political goals that harm firm performance (Shleifer & Vishny, 1994).

On a basis of the perspective of Frye & Shleifer (1997), grabbing-hand government is an interventionist one, but less organised than from the helping-hand perspective. The government encompasses a large number of essentially independent government officials following their own agendas, which include corruption. Such officials are largely independent of the judicial system and are able to enforce their rulings in commercial disputes and freely promulgate predatory regulations amongst businesses. In some severe circumstances, government becomes chaotic, and is incapable of enforcing law and order and ensuring fundamental legal enforcement. As a result, contracts are freely implemented without following the rule of law. In general, grabbing-hand governments stand above the law and aims to abuse their power to extract rents. Moreover, the judicial system becomes ineffective and the mafia takes over the state as an enforcer. In the grabbing-hand government model, predatory regulations exist and corruption prevails in society. Such a model focuses on politics as the determinant of government behaviour. This political behaviour includes the government's pursuit of political goals or politicians' pursuit of their self-interest objectives. Boubakri et al. (2008) describe the two main grabbing-hand perspectives in terms of political connection helping the government and related politicians to extract political benefits at the costs of profit maximisation for the benefit of other stakeholders in the firm.

The political view is that a high level of government intervention in the decision-making process of the firms ignores managers' goals for profit maximisation and encourages firms to pursue political goals instead (Shleifer & Vishny, 1994). Politically connected managers in the firm have the major objectives of maximising employment and wages; stimulating regional development by establishing manufacturing industries in politically attractive, rather than economically advantageous regions; providing goods and services at low prices; and supplying unnecessary products. These goals generally focus on ensuring the continuous implementation of political objectives (Boubakri et al., 2008). In addition to the political view of the grabbing-hand perspective, Boubakri et al. (2008) discuss the managerial view of the grabbing-hand approach. Shleifer & Vishny (1998) theoretically and empirically argue that a society whose talents are engaged in government or private rent-seeking is likely to stagnate, and that a higher level of rent-seeking behaviours of individuals working in the public sector is detrimental to economic development.

According to this perspective, politically connected managers have the tendency to extract rents for their own individual benefits at the expense of the firm (Fan et al., 2007).

3.4.3. AGENCY THEORY:

Based on Jensen & Meckling (1976), agency relationship refers to a contract established when one party, known as the principal, appoints an agent to conduct certain services on his/her principal's behalf. Therefore, decision-making authority is given to the agent to conduct the pirncipal's assignments. A fundamental problem related to the separation of control and ownership is known as the agency problem. This problem mainly arises from the different interests of the owners (shareholders) and agents (managers) of businesses (Jensen & Meckling, 1976). The main goal of a firm is to maximise its performance, but an agency problem can arise because agents fail to maximise the wealth of the shareholders (Fama & Jensen, 1983). Since the principal (owner) is unable to fully observe the actions of the agent (manager) because of information asymmetry, and considering the fact that such monitoring is costly, managers may act opportunistically to run the firm based on their own interests as opposed to those of the shareholders (Fama & Jensen, 1983). Kirkbride et al. (2009) noticed that managers tend to only operate towards corporate goals when those goals also serve their own interests. As a result, managers lose the trusts of the owners and are thus motivated to achieve their individual goals, which in turn intensifies the agency problem and increases agency costs. According to Jensen & Meckling (1976), agency costs can be categorised into three types: monitoring, bonding and residual costs.

Monitoring costs include those borne by the principal for observing, controlling and evaluating the actions of an agent. They are incurred to ensure that managers act in alignment with shareholders' interests. According to McColgan (2001), monitoring costs include audit expenses, the costs of signing compensation contracts for executives, or the cost of firing managers. These expenses then have been paid by the agents through adjustment of their compensation. As a result, the board of directors usually plays a monitoring role in the firm (Fama & Jensen, 1983). Monitoring benefits both the owners and the business itself in many ways. It is believed that it contributes to reducing the risk of moral hazard, which can be alleviated and uncovered by an effective monitoring system. The second type of agency cost are bonding costs, which are incurred by managers when they improve structures and strategies to act in the best interest of shareholders. These costs are typically related to the disclosure of additional information.

According to McColgan (2001), a marginal decrease in monitoring is equal to a minimum increase in bonding costs. Denis (2001) also suggests that through an optimal bonding contract, managers can make decisions that satisfy the interest of shareholders in the best way. However, a harmonised contract between shareholders and managers will encourage managers to pursue their own goals to a great extent. The third type of agency cost is residual loss. Although agency costs can be controlled by monitoring and bonding costs, managers' interests are still unlikely to be fully aligned with those of shareholders. Therefore, other losses arises from their relationship, known as residual loss (McColgan, 2001). In particular, residual losses incur when the cost incurred by the enforcement of a full principal-agent contract is greater than the benefits of that contract for managers and shareholders. Moreover, the issue of a time horizon conflict in agency contracts is likely to occurs between managers and shareholders when shareholders are concerned with cash flows for the foreseeable future, while managers aim to focus on those during their term of employment. Based on Dechow & Sloan (1991), this starts to become more of an issue when top directors reach the retirement age. In such a situation, directors decide to cut down on the company's research and development expenditure because they perceive that they will not benefit from such investment in the future. In addition to the agency problem between manager and owner, a similar agency problem also exists between the various principals, in which organisational rents can be appropriated by various stakeholder groups (Coff, 1999). It is not unsurprising that a large proportion of the original rents fail to stay within the firm, but instead are diverted to certain stakeholders groups (David et al., 2010). According to agency theory scholars, shareholders comprises groups of people with different types of character conflicts and the potential for "owner opportunism" (Connelly *et al.*, 2010; Bosse et al., 2014). In emerging countries, concentrated ownership is prevalent

(Rafael La Porta et al., 1998). While this ownership structure reduces managerial agency costs, it results in the principal-principal agency problem. In particulalr, blockholders can appropriate firm surpluses to the detriment of minority shareholders by extracting assets and profits.

A few studies have applied the agency paradigm to analyse the effect of political connection on firm performance. In an attempt to overcome agency issues, politicians, seen as outside directors, may be capable of monitoring and controlling the management in a better way due to their presumed independence compared to insiders, with the aim of ultimately improving firm performance. In addition to the advantage of helping firms to access to financial favours, politicians, as directors, may also contribute to improving firm performance by giving insights into imminent regulatory policies which may facilitate firms to make efficient investment decisions. Nonetheless, politicians can also exacerbate agency-associated problems by forcing management to engage in self-interested actions that protect the interests of politicians, thus weakening firm performance (Saeed, 2013). Furthermore, in the context of the existence of blockholders on the board structure, Sun et al. (2016) suggest that board political capital can increase the principal-principal agency problem by boosting more appropriation of firm wealth. Specifically, politically connected board directors can serve as a buffer against the discipline of legal/regulatory rules and that of the equity market. First, self-dealing activities conducted by blockholders can attract legal and regulatory sanctions, which should be enforced by the courts and securities-market regulatory agencies. However, the enforcement of legal and regulatory regulations related to investor protection is by no means exempt from political influence. In the case of judicial systems in emerging countries, the courts are further dependent on politics (Ginsburg & Moustafa, 2008). Therefore, politically connected firms are more likely to manipulate courts to resolve disputes (Ang et al. 2014), and if they are sued, they suffer lower shareholder wealth losses and have a higher possibility of making favorable appeals (Firth et al., 2013). Regulatory officials are more likely to feel pressured if they decide to discipline politically connected companies. Early political economy literature, such as

Stigler (1971), proposes that regulatory agencies can be taken over by interest groups who want regulatory arrangements to satisfy their own benefits. Furthermore, thanks to the firms' political capital, they are more likely to influence regulators (Gordon & Hafer, 2005).

Secondly, controlling shareholders who take part in persistent rent misappropriation may face punishments from the equity market and outside directors, resulting in lower firm performance and the loss of future equity financing opportunities (Durnev & Kim, 2005). However, politically connected board directors can assist controlling shareholders to obtain alternative access to resources and channels of financing. Therefore, such directors can considerably diminish controlling shareholders' dependence upon equity finance, hence reducing the effect of market-based disciplines. For instance, in the study of Leuz & Oberholzer-Gee (2006), Indonesian companies with close political networks were less subject to scrutiny from foreign or developed capital markets. Chaney et al. (2011) uncovered a lower quality of accounting information disclosure in politically connected companies compared to unconnected companies, but only the political connections they possessed helped them to avoid sanctions for the poor quality of information disclosure.

3.4.4. RESOURCE-BASED THEORY:

According to Penrose (2009), the growths of firms depends largely upon the management of bundled available resources. Wernerfelt (1984) used the resource-based view to support the notion that business success is greatly affected by its resources. The basic assumption of this theory is that the companies' resources and capabilities affect their competitive advantage. Resources in this instance simply relate to companies' possessions, both physical and financial, employees' skills and even organisational processes. On the other hand, capabilities refer to those actions a firm can perform drawing upon its resources.

Barney (1991) further investigated use of the resources-based view, which points out that resources must be valuable, not likely to be imitated, and rarely supported by tacit skills for a firm to maintain its competitive advantage. Barney (1991) further showed that a resource for a firm could be deemed to be valuable if it can increase the willingness of customers to pay for related products or services. The scarceness of the resource will create the premium and strong competitive superiority for the company over its competitors, as well as the inimitability of that resource. Moreover, the skills which the companies have developed to manage their resources can add value to them. Furthermore, based on resource dependence theory, business organisations confront an array of interdependences with external entities. Therefore, organizational survival and growth are reliant on their ability to acquire resources from, and deal with uncertainties brought about by external constituents. Among these constituents, the government is one of the most difficult environment dependencies to control (Hillman et al., 2009). Based on the viewpoint of Pfeffer & Salancik (2003), the organisation, via political mechanisms, makes an effort to establish for itself an environment which is more suitable for its own interests, as well as to establish political power in the external environment. Such power can be used at some future time in the organisation's interests.

Boards of directors help firms to deal with power imbalances with external entities. Specifically, if firms have directors with connections to external entities on which they are reliant, these board members will lower the uncertainty and transaction costs, and benefit the firm. The previous studies propose that politically connected board directors can provide organisational legitimacy, opportunities to forge the networks with political actors, and a wide array of regulatory and financial resources owned by political institutions (Goldman et al., 2009; Sun et al., 2012). Hillman et al. (2009) argued that firms which forge relationships with political authorities are more likely to obtain the performance benefits. This assertion has been supported by empirical studies examining the positive economic consequences of political ties (A J Hillman, 2005).

3.4.5. CONTINGENCY THEORY:

Contingency theory, as explained by Donaldson (2001), is a subset of the scientific contingency approach. Donaldson (2001) argues that the contingency approach can be interpreted by the influence of a variable on the relationship between two main variables. Therefore, the change in the third variable or factor will impact the relationship between the two research variables. Johansson et al. (1989) state that the sub-system of organisations and the relationship between the corporate environment and the organisational system are inter-correlated. In the contingency framework, there are no specific best approaches to structure an organisation (Islam, 2012; Cole & Scott, 2001). Profitable companies need to adapt their systems and structures to be consistent with the contingent conditions, especially their external business environment. Contingencies in this case consist of certain issues, namely stakeholders' strategic relevance, and economic circumstances. Flynn et al. (2010) argue that the environment in which an organisation performs will frame its structure and processes. In other words, an organisation's performance will be improved if the demands of the external environment with which the organisations interacts is adequately dealt with. As a result, organisational performance is reliant on the extent to which the strategy that it seeks to follow is associated with the demands of its environment (Flynn et al., 2010). In the strategic management literature, Van de Ven & Drazin (1984) described such an alignment between firm performance and strategy as "fit". In particular, it is the interactive effect of organisational structural variables on firm performance (Van de Ven & Drazin, 1984). When the structural variables of an organisation fit at a level that is proportionate to its organisational contingencies, firm performance is improved, and vice versus (Donaldson, 2001). Based on Zona et al. (2013), the better the fit, the more effective the organisation.

The concept of the fit of an organisational structure is the main feature of contingency theory. It is related to the concept that a firm is considered to be fit when it is structured and positioned to perform well in its organisational activities. In contrast, a misfit is the discrepancy from the ideal fit. Based on Miles & Snow (1984), fit is illustrated as the process through which a firm is capable of aligning its strategy with its environment and also preparing internal resources to facilitate such an alignment. Miles & Snow (1984) considered the mechanism of such an alignment and the internal structure as organisational structure and the process of management, because it is extremely hard for every company to closely integrate these important parts in a dynamic environment. Consequently, they suggest that organisations should always aim for, rather than fulfil, a perfect fit condition.

For the previous studies on the relationship between political connection and financial performance, the contingency framework is likely to be applicable and to be suitable (Zhao et al. 2016). It is most likely to be applicable to the political connection literature when the framework argues that the institutional context can influence the effect of political connection on the firms' operations (Zhou 2014). Unlike resource dependence theory, which proposes that the value of political connections still remains when governments control critical resources and production factors (Walder, 2003), the progressive view, rooted in market efficiency, argues that as the transition deepens, it is market forces such as the decreases in the resource redistribution power of governments and the emergence of market-support institutions that remains, so the value of political connections will be eroded (Cao & Nee, 2000). In particular, Zhao et al. (2016) argue that these two views converge explicitly in the role of the institutional environment in influencing the value of political connections, which shows that the debate about the value of such connections makes more sense and is more relevant if its effect is analysed in association with the particular contexts of institutions and organisations. In particular, the role of political connections in facilitating firms' operations is dependent upon the context and is likely to be better analysed by taking into account the specific institutional and organisational contexts. However, Zhou (2014) suggests two conflicting views on the effect of the development of the market and institutional systems on the role of political connections. On the one hand, the complementary view argues that the development of market and institutional systems will have little effect on the role of political connections. This view posits that the positive role of political connections in many less developed and transition economies is primarily associated with long-existing or newly emerged political markets, but not due to the lack of a sound institutional environment or market system. Furthermore, some evidence shows that political connections still play significant roles for entrepreneurs and firms in acquiring a number of benefits, for example loose regulatory oversight and preferential treatment in competition for government contracts, amongst many others, even in developed market economies (Dixit, 2004; Faccio, 2005; Pfeffer & Salancik, 2003). Therefore, this view supports the notion that the effect of political connections still remains positive and changes little when market and institutional systems develop in an emerging country.

On the other hand, the substitution argument argues that market systems and institutional development will reduce the role of political connections. According to the helping-hand framework, one strategy by which political connections influence entrepreneurship in a less developed economy is by securing the acquisition of resources and information. In a transition economy, in which the government initiates market-oriented reforms, thus increasing the market allocation of factor resources, the firms will acquire resources and market information more easily through formal markets (Peng, 2003). This view supports the notion that the benefits of political connections in acquiring information and resources will be weakened.

3.4.6. SOCIAL CAPITAL THEORY:

Social capital is formulated via social relations that can be utilised to facilitate the acquisition of essential resources, influence and sponsorship (Adler and Kwon 2002). Social capital is linked to the relationships that facilitate collaboration and cooperation in order to obtain mutual benefits. Network relationships can comprise feelings of gratitude, reciprocity, respect or friendship (Carolis et al., 2009). Dess & Shaw (2001) demonstrate that a firm's social capital can be difficult to quantify because it involves not only a complex set of dynamic relationships within a group, but also the unique conditions and interactions between that group and its external environment.

Adler & Kwon (2002) show that social capital is a form of capital because it has the six following characteristics:

1. It is a long-lived asset into which other resources could be likely invested, with the expectation of a future flow of benefits.

2. The resource is both appropriable and convertible.

3. It can substitute for or complement other resources.

4. It needs maintenance.

5. Some types of social capital are collective goods meaning that they are not the private property of those benefiting from them.

6. Investments in the advancement of social capital do not seem to be quantifiable.

Being connected to a social network stimulates mutual knowledge and recognition (Bourdieu, 1985). The benefits originating from a firm's social capital can lie in the form of both tangible and intangible assets, namely funding and financial information (Jonsson & Lindbergh, 2013). Social network members are likely to lead to sources of information and opportunity; however, in certain cases, social capital may be utilised to create a firm's social status or reputation. It has been found that social capital is important in providing legitimacy (Aldrich & Fiol, 1994); mitigating the liabilities of being a new organisation (Stinchcombe, 1965), facilitating firm growth (Zimmerman and Zeitz, 2002), and helping avoid the failure of a firm (Miner et al., 1990). It also relates an entrepreneur to opportunities which are crucial to a firm's success (Bull & Willard, 1993; Ellis, 2000), gives a firm support, credibility, and contacts (Ostgaard et al., 1996); and can promote innovation while reducing risks (Lipparini & Sobrero, 1994).

Firms' social capital is influenced by the context, and in particular by the institutional environment (Spence et al., 2003). According to North (1990), institutional arrangements are divided between formal and informal institutions. The concept of formal institutions is associated with the institutionalised rules, regulations, laws and supporting mechanisms that create the order in economic, legal and political frameworks. Informal institutions consist of the norms, beliefs, values and conventions that act as the basis of socio-cultural relations in society. With regard to transition countries, Ireland et al. (2008) explain that while formal institutional strategies and structures favouring capitalism have consistently developed, informal institutions are divided between old and new economic mechanisms.

In a study of Vietnamese entrepreneurial firms, Nguyen et al. (2009) demonstrated that networking plays a crucial role in SMEs' activities, particularly in developing countries, as such firms seek access to resources for their development. Nguyen et al. (2009) argue that the lack of effective market institutions makes networks play an important role in spreading knowledge about a firm's activities. Networks also make firms learn appropriate behaviour, and thus acquiring essential support from key stakeholders and the general public. Therefore, personal relationships and networks often act as effective substitutes for well-established institutions (Ahlstrom and Bruton, 2006). Previous studies suggest that networking between entrepreneurs, bankers, government officials, friends and relatives may reinforce a firm's legitimacy and play an important role for both lending institutions and corporate borrowers (Peng & Shekshnia, 2001; Le et al., 2006). For corporate borrowers, networks can facilitate access to resources, information and support from other parties (Hoang & Antoncic, 2003).

Adler & Kwon (2002) propose that the bridging view is one of the categories of social capital. Based on this notion, the bridging view primarily concentrates on social capital as a resource inherent in the social network, linking a focal actor to other actors. From this perspective, social capital can help explain the difference in success of individuals and firms over their competitors: The businesses of individuals and groups can be mainly facilitated by their direct and indirect connections to other factors in social networks". Carolis et al. (2009) suggest that the bridging form of social capital is the most prominent determinant in the entrepreneurship literature because of its relevance to the creation of new ventures. This form can bring two direct benefits to the success of entrepreneurial firms: information and influence. Social capital can help the firms to access to information, which is an important ingredient of entrepreneurial opportunities (Shane et al. 2000). It also contributes to improving the timing, relevance and quality of information (Adler & Kwon 2002). Carolis et al. (2009) declare that "individuals with close ties to universities, perhaps via alumni associations, may advance the relationships with researchers and hence have access to information on emerging commercialised technologies. The advantages provided to individuals include earlier access to the new technologies before they become the public knowledge. Another advantage of social capital is the influence. Individuals may accumulate favours possessed by others in their network, and then call in those favours in the near future. Several previous studies have shown that bridging social capital facilitates a firm's operations and generally improves their performance (Burt, 2004; Maurer and Ebers, 2006; Shaw et al. 2005).

In the context of emerging economies, the forms of bridging social capital are mainly connected with the political sphere (Cao et al., 2016). Ireland et al. (2008) stress the importance of investigating the effect of political-economic systems on the firm's behaviour. They argue that interactions between political and economic systems are widespread in developing and transitional economies; in which economic activities need to be understood in the context of taking into account the political system and the changes within it. One characteristic of most emerging countries is weak formal institutions (Rafael La Porta et al., 1998). In this type of arrangement, the firms utilise the disproportionately closed business networks of friends, relations, and government officials to compensate for the lack of formal institutions. However, this dependence on networks can provide an appropriate environment for agreeing and honouring corrupt deals (Fischer & Reuber, 2007; Morck & Yeung, 2004).

In former and current socialist countries, the government continues to play a large role in allocating scarce resources. In comparison to state-owned enterprises (SOEs), private firms receive little support from the government, and they normally lack market legitimacy. In such countries, the market mechanism and the government-led redistributive mechanism often coexist, which shows that bureaucrats still have a strong influence on business performance (Li et al., 2007; Boisot et al., 1996). Managers' links with government officials, the official networks, depict a special type of managerial resource in emerging countries because of the benefits enjoyed by the entrepreneur in easing the obstacles in the business environment (Li et al., 2007). The power of official networks is prominent in various emerging economies such as China (Peng et al., 2000; Xin and Pearce, 1954), Vietnam (Le Ngoc & Nguyen, 2009), and Eastern European Countries (Smallbone & Welter, 2001). Therefore, establishing official network with bureaucrats is not just an aspect of life for conducting business in those emerging countries, but it also shows the disparity between success and failure.

In a nutshell, social capital plays an important role in the entrepreneurs' activities, helping to ease the obstacles confronting them in the business environment. Among the different types of social capital, political connection is seen to be one of the most important social capitals in emerging countries, because such networks not only increase a firm's legitimacy in society and business, but also facilitates its acquisition of resources, information, technology and a talented labour force from the market. Therefore, political capital is an important intangible asset of firms in emerging countries (Cao et al., 2016)

3.5. THE EMPIRICAL REVIEW OF THE LITERATURE ON POLITICAL CONNECTION:

3.5.1. THE POSITIVE FACETS OF POLITICAL CONNECTIONS:

3.5.1.1. THE GOVERNMENT RESOURCES ACQUISITIONS:

From the above discussion, it is evident that the main goal of political connections is to obtain economic benefits that are favourable to a firm's continued economic success. Economists have long argued that those firms that lobby or maintain political connections obtain a variety of economic benefits in exchange (Fisman, 2001). Depending upon the viewpoint of access to government resources in developing countries, firms may seek to build on connections with the most influential individuals in their system, primarily politicians, in order to have access to the firm-specific political favours, mostly in the form of easy access to government resources, such as bank loans, government contracts and regulatory power. This is because governments continue to be involved in the resources allocation, such as access to bank loans in emerging countries characterised by a high extent of government intervention in economic activities and resources allocation, especially access to bank loans (Khwaja & Mian, 2005; Li et al., 2008; Johansson & Feng, 2016). For instance, Li et al. (2008) consider the role of being connected to the ruling

Communist Party in the operation of private enterprises in China. In their arguments, the lingering legacy of the command economy and the slow development of market-supporting institutions in many transition economies result in many obstacles for private entrepreneurs in running their businesses and enable them to establish political connections to access state key resources, namely bank loans. These are often reserved for state-owned enterprises, or are subject to heavy government regulations (red tape) or "extralegal" fees. Based on a nationwide survey of private firms, Li et al. (2008) empirically showed that political connection exhibited by party membership could help businessmen to gain more legitimacy, and facilitate the private firms' ability to obtain loans from banks or other state institutions, and empower their confidence in the legal system. With reference to a transition economy characterised by an interventionist state that plays an active role in capital allocation through the banking system, such as China, and the exploitation of the launch of a large stimulus programme in the autumn of 2008 as a typical case, Johansson & Feng (2016) found that political connection helped private firms to mitigate the discrimination that they faced from Chinese banks and to give them easier access to the national stimulus credit programme. Malesky & Taussig (2009) focused on the Vietnamese context, where, like in China, the private and financial sectors are developing dramatically, but the rule of law has not matched the speed of development of these two sectors. Although Vietnam's banking sector is in transition toward a healthier system, it still distributes a disproportionate share of credit to "connected" enterprises in less competitive regions. Malesky & Taussig (2009) found that political connection, in particular, was an ineffective tool for directing bank credit to the most profitable investors, as banks placed greater value on connections than ons performance. Kostovetsky (2015) argues that due to the financial institutions' connections to their home state senators, these firms are more likely to display risk-taking behaviours and were leveraged to a greater extent prior to the 2008 financial crisis, thus having more access to leverage when the local housing prices rose. Despite this, they had less likelihood of going bankrupt or becoming insolvent during and after the financial crisis and experienced higher stock returns during the period. The findings from these studies might not be generalisable to other contexts because of their focus on the single countries. In order to solve this issue, at a cross-country level, and using a sample of politically connected and unconnected firms in 47 countries, Faccio's (2010) empirical evidence show that politically connected companies have higher leverage than their counterparts, and that this effect is stronger in the countries characterised by a high level of corruption.

In addition to access to external financing through bank loans, government subsidies, tax breaks and obtaining government contracts, there are other government resources which politically connected firms are likely to enjoy. Using data on Chinese listed firms from 1999 to 2007, Wu et al. (2012) investigated the effects of politically connected managers on the tax benefits received by firms with different types of ownership. Their results show that the effective tax rates (ETRs) of private firms with politically connected managers were lower than those of private firms without such managers. Nonetheless, the role of politically connected manager is reduced in SOEs when there is no significant difference between their ETRs with connected managers and those without such managers. These results show that the connected managers of private firms help their firms to obtain tax benefits, but that such a pattern is not applicable to SOEs in China. This means that the value of politically connected managers is only useful in privately-controlled listed firms, not in state-controlled listed ones. Similarly, Wang (2015) also discusses the role of politically connected independent directors in helping firms secure more subsidies from government. In addition, Wang et al. (2017) used internal administrative data on applications to China’s Innofund program to clarify which application characteristics were correlated with greater chances of obtaining grants. They found that political connection helped some firms whose scores did not meet funding standards but who still received grants.

In addition, Sojli and Tham (2017) studied the value of foreign political connections. They focused on the proxy of foreign political connection as foreign government investors aim to actively participate in management. Their empirical results give evidence that an increase in firm performance appears to be associated with the provision of government-related contracts. Therefore, it is documented that government-related contracts are one of the mechanisms by which government connection can influence firms' operational efficiency.

3.5.1.2. THE REMOVAL OF THE REGULATORY CONSTRAINTS:

In addition to the benefit of political connection with regard to government resources appropriation, it also helps firms to remove the regulatory constraints faced by them. In some countries, governments continue to intervene to a great extent in regulatory processes such as firms' IPO applications and merger and acquisition processes, so political connection is more valuable in such countries (X. Du, Li, Liu, & Lai, 2016). Specifically, younger firms usually have more growth opportunities than their mature peers; so obtaining approval from government agencies and then going public to secure external funding are therefore very useful for them. However, because of limited performance records, information asymmetry, and greater uncertainty in bad market conditions, it is more troublesome to evaluate a start-up's value. Therefore, many previous studies argue that investors aim to use firm-specific features, such as the CEO network, to evaluate the potential of an IPO firm (Yang et al., 2011). Based on this viewpoint, Bao et al. (2015) argue that having a specific political connection through being a member of the ruling party and a member of the firm or having a network of contacts with government officials, will diminish a firm's risk of ideological discrimination, supporting it in obtaining key information and better preparing it for the pre-IPO process (Hongbin Li et al., 2008). Their empirical findings support their hypothesis that political connections help start-ups to reduce IPO denial risk because the chance of gaining approval for a firm's IPO increases when it has political connections. Employing empirical evidence from a sample of Chinese IPO cases during the period from 2006 to 2011, Chen et al. (2017) indicate that politically connected underwriters use their reputation and relationships with regulatory agencies to increase the probability of clients' IPO applications being accepted by the Chinese Securities Regulatory Commission (CSRC).

3.5.1.3. GOVERNMENT PROTECTION:

Connected firms may receive government protection through their political networks. A politically connected firm could be bailed out if in financial trouble (Faccio et al., 2006). Faccio et al. (2006) analysed the probability of government bailouts of 450 politically connected firms from 35 countries during the period 1997 to 2002, and showed that such companies had a higher likelihood of being bailed out if facing financial difficulties. In addition, the government protection is another important mechanism from which politically connected firms benefit. Such firms may receive protection because they are operating in industries of natural interest and government protection will ensure national security, economic interests, natural resources and assets, government ownership and a reduction in the impact from foreign competition (Cheng et al., 2016). Moreover, because of the nature of strategic firms, they also enjoy business and economic advantages, such as receiving subsidies, benefitting from favourable tax treatment, securing government contracts and enjoying property rights protection (Boubakri et al., 2012). Therefore, the findings of Cheng et al. (2016) demonstrate that the benefits of government patronage help strategic politically connected firms to outweigh the costs of political links with government bureaucrats.

3.5.1.4. EMPIRICAL REVIEW OF THE BENEFITS OF POLITICAL CONNECTION TO FIRM PERFORMANCE:

In general, political connection helps a firm to obtain government resources, avoid regulatory constraints and receive the government protection if in financial trouble or if facing severe competition from competitors. Due to these factors, politically connected directors can also improve the performance of their companies. Li et al. (2008) applied party membership as a measure of political connections, and their empirical evidence shows that the performance, measured as the return on assets and return on equity, of member firms was greater than that of their non-member counterparts. Additionally, such effects of political connections on firm performance are more evident in the regions with less advanced and legal systems. The appointment of politically connected managers can help private firms to avoid the disadvantagous positions and the private firms with politically connected managers had higher performance than those without such managers in terms of enjoying tax benefits from the government (Wu et al. 2012). Wang (2015) argues that without state ownership, listed privately controlled firms have to cope with an unfavorable economic environment. Wang's study gives empirical evidence that the performance effect and incentives of appointing politically connected independent directors are shaped by a firm's ownership structure. To be more specific, Chinese listed privately controlled companies which are dominated by a large percentage of politically connected independent directors have more value than their non-connected counterparts, due to the ease of access to external debt financing and receiving the subsidies received from the government.

Haveman et al. (2017) explain that in the process of Chinese economic development, the privately-owned sector of the economy developed and replaced the state-owned sector; market transitions displaced state redistribution; new types of organisations were developed to replace state-run production facilities and ministries; new types of goods and services were devised to replace state-issued standard ones; and economic growth goals were mainly allocated to state bureaucrats, whose careers increasingly relied upon meeting targets. These changes opened up many opportunities for businesses, but also greatly enhanced the uncertainty confronting them, increasing the probability of making costly mistakes. The changes were gradually implemented at different times in different regions, with such persistent and uneven change enhancing the uncertainty. The Communist Party maintained control over the state bureaucracy and the rule of law remained weak, so the state retained the control of key business resources, and electoral processes were not available for disciplining bureaucrats. Therefore, stagnation in political institutions resulted in uncertainty and diminished trust in state authorities. Connections to state bureaucrats were necessary to reduce this uncertainty and strengthen trust in state authorities, and this need developed as market development proceeded and uncertainty increased. This theoretical view is strongly supported by the empirical findings of Haveman et al. (2017), who showed that a firm's ties to state bureaucrats was essential in boosting its performance and operational efficiency during the economic development in China.

Shin et al. (2017) explain the role of politically connected outside directors in the activities of Korean business groups. These groups (chaebol) provide an ideal setting to study the effects of such directors on firm performance. While the importance of maintaining close relationships with government cannot be overemphasised in virtually all firms, Korea is unique in the sense that chaebol leaders have worked closely with government at every stage of Korea's economic growth since the Korean War. Therefore, Korea provides a very powerful setting to test the role of 'politically connected' boards in helping firms create links with the government. Shin et al. (2017)'s findings provide evidence that the presence of politically connected outside directors will provide many benefits to firm operation and market performance, and also lower any risks faced.

Wu et al. (2018) examined the effect of CEOs' political connections on firm performance and CEO pay using a sample of private Chinese companies. Their study enriches the understanding of the effects of political connections, a crucial but under-examined construct, based on the viewpoint of resource dependency theory. Integrating the agency theory with resource dependence theory in the context of China's sociopolitical environment to analyse CEO pay, Wu et al. (2018) empirically demonstrate that political connectedness improves firm performance due to its role in guaranteeing political legitimacy and securing access to government-controlled resources. Hence, political connectedness is a crucial determinant of executive pay in private Chinese firms. These findings are in line with the logic of agency theory because CEOs' political connections improve firm performance and are an important determinant of determining CEO pay.

3.5.2. NEGATIVE FACETS OF POLITICAL CONNECTIONS:

3.5.2.1. POLITICAL GOALS:

Politically connected managers often pursue the political goals that are not consistent with the maximisation of the value of firm. Wu et al. (2012) empirically showed that local state-owned enterprises with politically connected managers often have a lower performance than those without such managers. They also identified the channels through which politically connected managers impair firm performance, which is a greater policy burden in the form of surplus labour. Similarly, using a sample of Russian banks, Okhmatovskiy (2010) discovered the different effects of various types of political connections on bank performance. These findings show that the firms with direct ties to the government will experience significant costs linked to government officials' involvement in the corporate governance process. In contrast, firms with ties to state-owned enterprises (SOEs), indirectly connected to the government, experience performance improvements through their direct access to government resources. Okhmatovskiy (2010) explain that firms with direct ties to the government are often subject to government intervention in their decision-making processes. Such intervention is often linked to political goals rather than maximisation of firm value. In the study of Wang (2015), the appointment of politically connected independent directors in listed state-owned enterprises may exacerbate the conflict of interest between the government as the controlling shareholder and other small stock market investors. Indeed, besides economic goals, the government, as the controlling shareholder, may pursue its political and social objectives, which does not need to be consistent with the interest of other minority investors. Politically affiliated independent directors may not be independent from the government as the controlling shareholder, thus distorting their role in protecting all shareholders' interests.

3.5.2.2. INDIVIDUAL RENT-SEEKING GOALS:

In addition to political goals, many studies also acknowledge the rent-seeking individual behaviours of politically connected directors in the form of corruption, facilitating the extraction of major resources from the firm. Domadenik et al. (2015) developed and tested a theory of how political corruption (linked to political connectedness) influences the corporate governance and performance of partially or fully state-owned enterprises (SOEs). Their game-theoretic model discusses the notion that if underdeveloped democratic institutions do not punish political corruption, this will result in the political connectedness of firms, which in turn has a negative influence on performance. Using firm-level panel data on virtually all medium-sized and large industrial firms in Slovenia, Domadenik et al. (2015) assess a firm's political connectedness by the percentage of politically connected individuals on its supervisory board. Their empirical findings show that a higher percentage of such supervisory board members results in lower total factor firm productivity. Malesky & Taussig (2009) empirically found that although companies with the presence of politically connected managers enjoyed easier access to bank loans from state-owned commercial banks, they also had lower performance than those without politically connected managers. They conclude that politically connected managers had ineffectively used government resources such as bank loans, indirectly negatively affecting firm performance.

The findings of Fan et al. (2007) are consistent with the "grabbing-hand" government argument. They posit that firms with politically connected CEOs are reluctant to improve board professionalism and appear to have board structures with a greater number of current or former government bureaucrats. These firms with politically affiliated CEOs also show poorer accounting and stock return performance relative to politically unconnected firms. The resulting negative effects are evident in IPO pricing and in stock returns shortly after the initial trading day. Chen et al. (2017) investigated the role of underwriters' political connections in the Chinese IPO market. Also consistent with the "grabbing hand" government argument, although the political capital of underwriters helps firms to significantly increase the likelihood of obtaining IPO approval from the CSRC, the underwriters and their clients can exploit the benefits of political capital at the cost of the minority shareholders interests. Therefore, the post-IPO performance of firms underwritten by PC-firms is worse than those of firms underwritten by non-PC firms in terms of stock return and earnings growth. Similarly, Boubakri et al. (2008) employed a sample of 245 privatised firms headquartered in 27 developing and 14 developed countries over the period 1980 to 2002 in order to discover the extent of political connections in newly privatised companies. They found that continuing government control of privatised firms created rent-seeking behaviours and made the privatisation effect slower, indicating that the performance of politically connected privatised firms was inferior to that of their non-connected counterparts. Xu et al. (2016) studied the connections between cash holdings and political uncertainty of firms in China. Under the grabbing hand assumption of politicians, when the political uncertainty exists and newly appointed officials display grabbing-hand behaviour, firm tend to hide their cash holdings as a strategic response. Furthermore, the market value of cash holdings is significantly negative during periods of political uncertainty as a result of the loss of cash caused by political extraction.

Liu et al. (2015) and Hu et al. (2016) refer to the downside of political connection in facilitating the tunneling activities of controlling shareholders. Liu et al. (2015) argue that family founders' political connectedness exacerbates Chinese family firms' incentives to hold more cash for tunneling, but that such cash holdings are value-damaging. Hu et al. (2016) developed a combined theoretical framework of both agency theory and resource dependence theory to explain the rent appropriation of blockholders. Their results reveal that politically connected directors invited onto the board are primarily aim to create rents for focal firms. However, the unexpected consequence of this combination is the formation of a shield for blockholders against disciplinary forces in legal/regulatory and market-based mechanisms. This shield helps blockholders to appropriate wealth from firms at the expense of minority shareholders. Unlike previous studies, that of Hu and Hillman (2016) was the first to explain the negative implications of combining resource dependence theory and agency theory. They answered the question of political board capital providing "resource provision for whom?" based on the viewpoint of agency theory. In the study of Hung et al. (2012), politically connected directors on the board were found to be rent-seekers when their political interests impaired firm performance. They employed the overseas listing of their firm in the Hong Kong market as a mechanism to generate rents. The results obtained by Hung et al. (2012) show that among politically connected firms, managers of overseas listed ones probably enjoy more recognition in the political media or are promoted to a senior government positions more than those of domestically listed firms, and that the post-overseas listing performance of connected firms is worse than that of non-connected firms.

Unlike the study of Wang (2015), which found a positive relationship between politically connected independent directors and firm performance, Shi et al. (2018) found a negative effect of politically connected independent directors on firm performance in a sample of the Chinese A-share market . Using (risk-adjusted) market reactions around the event data as their key measure to quantify the value of politically connected independent directors, they found strong and consistent evidence that such directors, especially those associated with a central-level position, with a relatively high political ranks and serving in the government, the Party, the National People's Congress (NPC) or the Chinese People's Political Consultative Conference (CPPCC), impaired rather than improved the value of the firms that they served, in comparison to their non-politically connected counterparts. More surprisingly, Shi et al. (2018) explain the reasons why politically connected independent directors are less valuable than non-politically connected ones. First, the former are less effective in monitoring managers than the latter when a principal-agency conflict exists. Secondly, politically connected independent directors are not different from non-politically connected ones in mitigating a principal – principal conflict, and extract the political resources from the firms they serve.

Jackowicz et al. (2014) examined the effect of politically connected directors on the performance of listed non-financial firms. Using a dataset covering the 2001-2011 period, they obtained the new empirical evidence from the Polish context by discovering that political connections reduce firm profitability, as measured by the ratio of income to sales in the sample. The negative impact is strongest when a firm possesses multiple connections, has politically connected members on its supervisory board, or uses ex-politicians with central government experience. Therefore, their findings do not support claims based on resource dependence theory. The Polish market's specificity is most likely associated with the instability of the political scene.

3.5.3. EMPIRICAL LITERATURE ON CONTINGENT VALUE OF POLITICAL CONNECTIONS:

Previous empirical studies have applied the contingency framework to analyse the role of political connections in the dynamic institutional environment. From the contingency perspective, the effect of political connection is likely to be moderated by institutional development (Zhao et al., 2016). For instance, according to Zhou (2014), whereas previous studies have stressed on the importance of political connections in the success of Chinese entrepreneurial companies in the period of early reform (1978 – 1999), regional institutional developments have significantly contributed to the growth of entrepreneurial activities, and hence played a crucial role in boosting entrepreneurial performance during that period. Zhou's (2014) study empirically shows that not only legal protection of property rights but also the development of the market system facilitates entrepreneurial performance. Moreover, Zhou (2014) demonstrate that the role of political connections becomes less important during regional institutional development. Hence, the effect of political connections is contingent upon the institutional environment during the period of economic reform in China.

In a similar vein, Brockman et al. (2013) analyse the impact of political connections on mergers and acquisitions (M&A) activities. In particular, they examine whether the post-merger stock and operating performance of politically connected acquirers is different from those of unconnected acquirers. Using a sample of M&A deals made by politically connected companies and their unconnected counterparts, their study reveals that politically connected acquirers have lower performance relative to that of their unconnected counterparts after M&A deals. However, this effect varies depending upon the institutional context in which the politically connected acquirer is located. With the interaction between political connection and institutional context, politically connected acquirers often under-perform after M&A deals in the countries with strong institutions (low legal weakness or low corruption). In contrast, politically connected acquirers outperform after M&A deals in countries with weak institutions (high legal weakness or high corruption).

Table 3-3 summarises the empirical outcomes of studies on the relationship between political connections and financial performance relevant to this study. The table is divided into six (6) columns, with the details of the authors' names and year of publication, the country of research, the sample size utilised in the study, the methodologies employed, the definitions of political connections used for the research and the key findings.

TABLE 3- 3: EMPIRICAL OUTCOMES OF STUDIES ON THE BENEFITS AND DRAWBACKS OF POLITICAL CONNECTION:

Author(s) Year	Country	Aim and Main Method	Observations	The Definitions of Political Connections	Main findings: negative(-); positive(+); or ambiguous
Faccio et al. (2006)	Cross-country	- The paper undertakes a systematic examination of the link between political connections and corporate bailouts - Logit regressions - Multivariate Analysis	900	A company is politically connected if one of its large shareholders or top officers is or was: (a) a member of parliament, (b) a minister or the head of state, or (c) closely	Negative

				related to a top official	
Joseph P.H. Fan, T.J. Wong, Tianyu Zhang (2007)	China	- The paper examines the role of government intervention in China's newly partially-privatised firms - OLS regression	780	The paper traces the CEO's (director's) political connections by examining whether he or she is currently or was formerly an officer of either the central government, a local government, or the military	Negative
Hongbin Li, Lingsheng Meng, Qian Wang, Li-An Zhou (2008)	China	- The paper examines the value of political connections for private entrepreneurs in China - OLS regressions	2324	- A former public manager - A former cadre - A current member of the People's Congress - A current member of the Chinese People's	Positive

				Political Consultative Conference - Party membership	
Narjess Boubakri, Jean-Claude Cosset, Walid Saffar (2008)	Cross-countries	- The paper investigates the extent of political connections in newly privatised firms around the world - OLS regression - IV regression	245	A company is politically connected if at least one member of its board of directors (BOD), or its supervisory board or largest shareholders is or was a politician; that is, a member of parliament, a minister or any other top appointed-bureaucrat	Negative
Wu et al. (2012)	China	- The study investigates the impact of political ties conditional on ownership for a	9629	The study defines a CEO as politically connected if he	Positive in non-SOEs and negative in SOEs

		sample of Chinese firms over the period 1999-2006 - Ordinary Least Squares Regression		or she is currently serving or formerly served in the government or military.	
Jackowicz et al. (2014)	Poland	- The paper analyses the impact of political connections on the operational performance of non-financial companies in Poland. - GLS estimation - GMM estimation	2428	The study defines a company as politically connected if one of board of directors or supervisory board members is an official of central and local governments, national parliament	Negative
Kostovetsky (2015)	United States	- The paper examines how political connections affect the risk exposure of financial institutions. - OLS regressions	864	Politically connected directors include former members of the Senate and House of Representatives, former White	Positive

				House officials and aides, former heads of federal executive departments and cabinet-level agencies, former state governors, and former US ambassadors to other nations	
Wang (2015)	China	- The paper empirically investigates politically connected independent directors in Chinese listed firms using 7487 firm-year observations from the Shanghai stock exchange during the period of 2003-2012 - OLS regressions	7487	A politically connected independent director is defined as: - A former government official - A current or former member of the People's Congress (CPC) - A current or former member of the	Positive in non-SOEs and ambiguous in SOEs

				People's Political Consultative Conference	
Domadenik et al. (2015)	Slovenia	- The paper presents and tests a theory of how political connectedness (often linked to political corruption) affects the corporate governance and productive efficiency of firms - GMM panel data method - OLS regression	2712	Politically connected supervisory board members: Former government officials	Negative
Shin et al. (2017)	South Korea	- The study examines the performance impact of appointing politically connected outside directors (PCODs) in Korean chaebol firms - OLS regressions	1480	- Regulators or Former government officials - Legal former judges or prosecutors - Politician or former politicians - Current or former	Positive

				journalists or social activists - Member of congress	
Haveman et al. (2017)	China	- The paper studies business - state ties in China, which have experienced great economic change, coupled with political stability - Fixed-effect regression	11145	The study defines directors as politically connected if they are or were governmental officials	Positive
Zhou (2014)	China	- The paper studies the role of political connections during regional institutional development - Hierarchical linear modeling (HLM)	1541	The study defines entrepreneurs as politically connected if they were government officials in any period before the foundation of the firm, or if a close personal connection – the entrepreneur's father, spouse, or	This study shows that political connections played a diminishing role in entrepreneurship during China's formal institutional development.

				adult children – is currently a government official or was before retirement.	
Brockman et al. (2013)	Cross-country	- The paper studies the performance of politically connected acquirers after M&A deals in the different national institutional environments - OLS regressions	1018	The study defines a company as politically connected under three circumstances: - At least one of its top officers or large shareholders is a member of parliament - At least one of its top officers, large shareholders, or their relatives is a minister or the head of state. - The company is	In countries with strong legal systems or low levels of corruption, politically connected acquirers underperform their counterparts and vice versus.

				closely related to a top politician or party.	

3.6. A SUMMARY AND LIMITATIONS OF PREVIOUS LITERATURE ON THE POLITICAL CONNECTION LITERATURE:

Despite the number studies on the relationship between political connection and firm performance, there remains several limitations which call for further investigation and research. First, one of the major limitations of the existing research in terms of the above relationships are the conflicting results obtained, which warrants the need for further research (Wu et al., 2012; Li et al., 2017; Fan et al., 2007). The literature has focused on answering the question "Do political connections destroy or create firm performance?" but has yielded contradictory results with some of the reasons for this being difference in geographical locations, methodology, sample size, control variables, and time variables (Wang, 2015). Some researchers have found a positive relationship (Haveman et al., 2017; Hongbin Li et al., 2008; Shin et al., 2017), while others have found a negative one (Domadenik et al., 2015; Fan et al., 2007; Jackowicz et al., 2014). On the other hand, some studies have found an inconclusive or ambiguous relationship (Fisman 2001; Chen et al. 2017). The mixed findings on political connection make the need for further research essential; including testing of the performance effect of political connection in new contexts, and use of different control variables, sample sizes and time spans. Many of the studies in the field of political connections were conducted in China or the USA; with the limited number in emerging countries as Vietnam. This study aims to contribute to the ongoing debate on the relationship between political connections and firm performance in emerging countries by analysing a sample of manufacturing listed firms in Vietnam over the nine year period from 2007 to 2016. Through the study, the Vietnamese results should provide additional information for governmental agencies to make interventions and policy adjustments and firm-specific solutions.

Second, recent scholars have reformulated the research question into "What factors affect or drive the political connection-firm performance relationship?". One of the factors is ownership structure. This study aims to resolve the conflicting findings on whether ownership structure influences this link (Wu et al. 2012). For instance, some previous studies have shown that political connection may be harmful to the value of state-owned enterprises (Wu et al. 2012), whereas other studies have revealed an inconclusive effect of political connections on the value of state-owned enterprises (Wang et al. 2017). These ambiguous findings may a provoke major debate on how ownership structure, such as state-owned or non-state-owned enterprises, shapes a firm's incentives to develop political connections, and the appointment of politically connected directors may have the different value effects on the value of firms controlled by the different types of owner. This study aims to explore and compare the effects of the appointment of politically connected directors on firm value in the non-state-owned and state-owned enterprises. Vietnam was chosen because the country is experiencing a slow privatisation process, with government ownership remaining in many firms. Moreover, partially or fully government-owned enterprises may still pursue political agendas, which is not in line with their value maximisation goals of the firm (Kim et al. 2010; OECD 2013). To help the government achieve its goals, it often assigns the politically connected directors to boards. Therefore, the presence of such directors in the state-owned enterprises is widespread in Vietnam. For non-state-owned enterprises, politically connected directors may be still needed because they can help their firms to gain legitimacy in the business environment and to gain competitive advantages over competitors (Le Ngoc & Nguyen, 2009).

One of the other major limitations of the existing research is that some studies (Fan et al., 2007; Ferris et al., 2016; C. D. Hung et al., 2017; Hongbin Li et al., 2008; Saeed, 2013) have made a number of both theoretical and empirical contributions to the relationship between political connection and firm performance without considering its dynamic effects during institutional development. This also raises the following question: "**What is the role played by political connection in different institutional settings**?" This question remains empirically unexplored and has contributed to the ambiguity in the findings (Zhou, 2014).

3.7. CONCLUSION OF THE CHAPTER:

This chapter has provided a review of the empirical literature on political connection. It has analysed the interrelationship between political connections and firm performance, starting with the discussion of the definitions, measurements and types of political connection. Subsequently, a small section focused on the antecedents of building political connections and reviews of the conceptual framework. The empirical literature on the consequences of forging the political connections was then discussed. The final section shows the lack of consistency in the current empirical evidence on the impact of political connections on firm performance, and together with the calls for further research in the field.

CHAPTER 4: METHODOLOGY

4.1. INTRODUCTION:

According to the research aims and questions, this chapter critically discusses the available methodological options and provides justification for the methodological approaches undertaken. Methodological guides depict a wide variety of research methodologies from which researchers can choose the most appropriate. Moreover, a major decision on research paradigms has to be made when a researcher selects a methodological approach because such a selection clearly demonstrates not only on the nature and requirements of the work, but also on the researcher's view of it. In order to make an appropriate choice, the researcher needs to have a broad understanding of the different paradigms and their application to research. Given that such understanding is prerequisite to undertaking research, this chapter will begin with a discussion of the research paradigms and provide justification for the choice made for this research. It will then discuss why the quantitative approach was selected. The following section will provide specific discussion of the data collection instrument, sampling technique and process, and the different techniques used in the analyses made in the empirical chapters.

4.2. RESEARCH PARADIGMS:

An understanding of research philosophy leads to awareness of the available philosophical alternatives that assist researchers in selecting a philosophical view that influences, determines and even informs their decisions on research strategy and methods. Guba & Lincoln (1994) describe a paradigm as "…a set of beliefs (or metaphysics) which deals with ultimate principles. It shows a worldwide viewpoint that defines the nature of the 'world', the individual's place in it, and the range of possible relationships to that world and its parts" (p.200). It can also be defined as a general world direction and the essence of the research in which the researcher believes (Creswell 2009). Sarantakos (2005) defines research paradigms as ontological, epistemological or methodological prescriptions that instruct the research mechanisms. Based on Guba & Lincoln (1994), paradigms answer three basic questions:

- *The ontological question:* that is, what is the essence of 'reality'? Is there a real world that is independent from our knowledge, upon which foundations can be made? (objective)?. Or is the world socially formulated; and hence depends upon a particular time or culture (socially constructed)?
- *The epistemological question:* the essence of the relationship between researchers and what they aim to grasp. It answers the question of how we know what we aim to know.
- *The methodological question:* How do we obtain knowledge in the world? That is, how does the researcher go about finding knowledge? The methodological question answers questions about the choice of research approaches and the data collection instruments used.

Esterby-Smith et al. (2012) discuss three reasons why it is important to understand the paradigms associated with research methodology. First, they help the researcher to specify and refine the research methods employed in the study. Second, they enable the researcher to gauge different methodologies and methods and hence avoid their inappropriate use and unnecessary work by clarifying the limitations of particular approaches at an early stage. Third, they allow the researchers to be creative and innovative when adopting methods that are outside their expertise. Saunders et al. (2012) show that when undertaking research, each researcher adopts important viewpoints on how they view or perceive the world, and these views and assumptions will influence the research strategy and methodology chosen. These world views are shaped by the researchers' past experiences and discipline area and will result in their choice of methods and approaches. Two main paradigms dominate social research – positivism and interpretivism. Many scholars have clarified a number of related paradigms that mainly depend upon these two. With regard to the choice of research paradigm, a brief discussion of the most important paradigms in management research is made and justification for the adoption of a particular paradigm is identified.

Positivism allows for the application of the natural science methods to the study of social reality. Developed from the empiricist view of natural science, it proposes the objective view that the researcher should be independent from the research objects and that the research should be conducted in a value freeway (Remenyi et al. 1998). It uses theory to produce hypotheses which can be tested, with the purpose of seeking general laws and causal statements on a social phenomenon (Guba & Lincoln, 1994). Methodologically, positivists utilise quantitative methods as their research techniques and their results can be replicable and generalisable. Their purpose is to seek explanations in behaviour rather than in-depth meaning. This approach focuses on an empirical data collection process; it is cause and effect-oriented and usually based on previous theories (Creswell 2009). Its strengths are that the research findings can be generalised and replicated on many different samples and future predictions can be made (Johnson et al., 2007). However, the debate on the appropriateness of applying natural science models for the study of society has been a long-stance, because researching social issues is more complicated than researching physical objects (Bryman et al. 2015). Moreover, positivism has major shortcomings as it needs to control both researchers' bias and nature's tendency to confound (Guba & Lincoln, 1994).

Post-positivism was suggested as an attempt to resolve the criticisms of positivism discussed above. In such an approach, the purpose of research is to reach agreement between the researcher and the nature of reality (Creswell 2009). The main difference between positivism and post-positivism is that the positivist observes reality without interference from the researcher, which can be understood by his/her observations and by following general laws, while in the post-positivist viewpoint, our understanding of reality is constrained by its complexity, the researcher's limitations and other external limitations (Schutt, 2006).

However, post-positivism also has its weaknesses. Some scholars argue that social phenomena are too complicated to be understood by quantitative paradigms and requires in-depth qualitative analysis, while the objectivity suggested by positivist paradigms is insufficient (Johnson & Duberley, 2000). In the methodological view, post-positivism suggests empirical observation and measurement but also acknowledges that research bias remains (Saunders et al., 2012). For instance, one aspect of such bias is the researcher's own beliefs and values, which are likely to be embedded in the logic through which the researcher selected the research topic and how he or she dealt with the research process (Saunders et al., 2012). The knowledge developed through a post-positivist lens is based on observation and measurement of the objective reality, and hence the accepted approach to research by post-positivists is that the researcher starts with a theory and then collects data that either supports or refutes it (Creswell 2009).

On the other hand, interpretivists believe that it is impossible to make objective statements about the real world because there is in fact no such thing. In their view, the world is socially constructed, so social phenomena cannot be explained and examined by objective natural science methods (Bryman & Bell, 2015). Interpretivists make assumptions that individuals seek the understanding of the world in which they work and live, and improve subjective meanings of their experiences (Creswell, 2009). Because of their belief in non-objectivity, methodologically, interpretivists aim to use qualitative research methods and seek to comprehend social behaviour in more depth, rather than concentrating on explaining it. They believe that the construction of reality can be formed by the interplay between the researcher and the respondent, and interpreted by qualitative techniques. The purpose of the research under the interpretivist lens is to depend upon as much as possible on the participants' viewpoint of the phenomenon being studied. Researchers' own backgrounds exhibit their interpretation and they position themselves to acknowledge how this interpretation is affected by their personal, cultural and historical experiences (Creswell, 2009). This research does not aim to understand the meaning of political connections. It accepts the existing definitions and meaning of the construct in order to understand its antecedents and outcomes. For this reason, interpretivism was not appropriate for the study.

Guba & Lincoln (1998) regard critical realism as a paradigm that over time has been constructed by social, political, cultural, economic, ethnic and gender factors, and then crystallised into a series of structures that are now taken as 'real'. Critical realism refuses the main principles of both positivism and post-positivism and suggests that the researcher's values not only influence the subject of inquiry, but that the two are interactively associated, leading to value-mediated findings (Guba & Lincoln, 1998). Methodologically, critical realism aims to identify how the factors and structures creating it may determine human actions by the use of either qualitative or quantitative research methods.

Pragmatism proposes that instead of considering methods, the researcher must concentrate on the research problem and utilise all the available approaches to comprehend it (Creswell 2009). Tashakkori & Teddlie (1998) show that it is essential to focus on the research problem and then use pluralistic approaches to understand it. Based on Creswell (2009), pragmatism gives researchers more freedom of choice over the methods and techniques that best meet their needs and goals.

4.3. THE CHOICE OF A PARADIGM:

With reference to the discussion of the different paradigms above, which is most suitable for this study? The answer to this question is relevant to the three basic questions, (ontological, epistemological and methodological) suggested by the research paradigms. In addition, the researchers' own sets of beliefs developed overtime will influence their choice of research paradigm. The choice of a particular paradigm will further affect the choice of a research method, design and instrument. Creswell (2009) proposes that the researcher's world view is influenced by a number of things: (a) the discipline area; (b) the beliefs of the supervisors and other faculty members; and (c) the researcher's past experiences. According to these points and the paradigms discussions above, a positivist perspective of the philosophical debate was selected.

Based on the line of reasoning of Johnson & Clark (2006), the most important issue is not whether the research is philosophically informed, but how well the researcher is able to explain the philosophical adoption and the reasons why it is appropriate compared to alternatives. In the explanation of Saunders et al. (2012), no research philosophy is better than another. They are all 'better' at doing different things, and which is 'better' is dependent upon the research questions the researcher is seeking to answer. The study's aims and objectives stated above will be better addressed from a positivist approach to the philosophical debates. Although the researcher chose the positivist paradigm, it is also acknowledged that the principles of positivism are extremely difficult to follow in any social research context. In order to resolve the limitations of this study, the post-positivist approach is considered to be the most appropriate. This is because such an approach acknowledges that our understanding of an empirical reality is constrained by its complexity and the researcher's bias, together with other limitations (Schutt, 2006).

4.4. THE CHOICE OF QUANTITATIVE APPROACH:

As suggested in the previous section, the selection of research approach greatly depends on the philosophical position. On the other hand, it is also influenced by the research aims, objectives and questions (Creswell, 2009). In particular, this study does not aim to produce a new theory from the data but to test and develop an existing one. For this reason, it does not take an inductive approach, which requires the use of a qualitative research method. In this study, the research problem focuses on understanding the effect of political connection on the market-based performance of the company, and how this effect is moderated by ownership structure and regional institutional development. Therefore, it adopts a deductive research approach. In addition, the objective of the study is to empirically test the established theoretical relationships between the variables. Therefore, the quantitative method is the most appropriate for this study.

4.6. CONSTRUCTION OF THE DATASET:

In order to answer the research questions, the study population was obtained from the listed manufacturing companies on the two main markets of Vietnam, namely the Ho Chi Minh stock exchange (Hose) and Hanoi stock exchange (HNX), covering the period of 2007 – 2016. The choice of the period was influenced by the boom in the Vietnamese stock exchanges, from 2007, the number of listed firms began to surge due to the increasing inflow of investment[10]. Therefore, many firms aimed to utilise this chance to be listed on the stock exchange, and full availability of corporate governance and financial data became available in 2007.

To arrive at the sample, the study only consists of Vietnamese manufacturing firms because they have their long history in the business environment of Vietnam. The primary type of enterprises in Vietnam was mainly small manufacturing household or state-owned enterprises (OECD, 2013). In the past, since the initiation of economic reform in 1990 and with the policy of opening up the economy, many governmental officials have left their jobs in governmental agencies, and started their own businesses in the small manufacturing sectors (Rand, 2017; Malesky & Taussig, 2009). Until now, their businesses have grown and some manufacturing companies have been listed on the stock exchanges (Vu et al., 2015). Therefore, compared to other industries, many owners in the large or small-medium-sized manufacturing companies had been government officials in the past or had the relatives working in governmental agencies at the national or provincial level (Markussen & Tarp, 2014; OECD, 2013). Furthermore, the manufacturing sector was the one most influenced by the business environment in Vietnam (Vu et al., 2015). Specifically, the majority of domestic manufacturing companies were the main target of regulatory inspections from government officials, enjoyed less favouritism from the government, and almost confronting variations in governmental regulations (USAID et al., 2016). On the other hand, in recent years the government has tended to attract and to prioritise the foreign-invested companies in the manufacturing sector, for example SAMSUNG and LG, in order to boost economic development and to increase foreign investment inflow (Perkins & Anh, 2009). Compared to the manufacturing FIEs and other sectors, although domestic manufacturing companies contribute a significant proportion of GDP growth in Vietnam,

[10] 2007 was when Vietnam joined the World Trade Union and started to attract an inflow of foreign investment.

they still face disadvantages in the business environment, and enjoy less patronages, and developmental policies from the government (Vu et al., 2015). Furthermore, with 96% of manufacturing companies being small-medium-sized enterprises, this creates a bigger hurdle for domestic manufacturing companies due to the fact that their developmental resources are limited (Pham et al. 2010). Many previous studies in Vietnam have shown that domestic manufacturing companies have utilised political connections with governmental agencies or politicians with higher political status to obtain support and patronage from the government in terms of developmental policies and resources (Rand, 2017; Malesky & Taussig, 2009; Nguyen et al., 2009). Therefore, the focus of this study is on the manufacturing sector, broadening the scope of previous studies in Vietnam, and evaluating the performance effect of political connection on listed manufacturing companies in the country.

In order to be included in the final sample, companies needed to have a financial statement for the period from 31 December 2007 to 31 December 2016. However, not many firms were listed from the year 2007, but only in subsequent years. Therefore, the overall sample comprises unbalanced panel data including listed firms in the manufacturing sector. Moreover, the sampling period starts in 2007 because the State Securities Commission of Vietnam has required listed firms to report relevant information in annual reports and prospectuses since 2007. The information on politically connected directors is mainly hand-collected from their biographies in annual reports and the prospectuses of listed manufacturing companies. The requirement for disclosure rules of the State Securities Commission of Vietnam is that annual reports and prospectuses should provide information on the personal background of each director. However, the annual reports do not contain all such information. Therefore, the study aimed to collect additional information on the biographical data of directors from other central and provincial government agencies and from other internet sources[11] in Vietnam. Firm-level accounting and financial data were collected from the Vietstock's database (finance.vietstock.vn). In

[11] Another source of information was Vietnamese versions of the online newspapers.

particular, the database gathers financial and accounting data on an annual, quarterly and monthly basis from income statements, balance sheets, explanations for the financial statements, and annual reports of all the listed companies on two stock exchanges, namely HOSE and HNX. In addition, corporate governance data, such as ownership concentration, CEO duality and board size, are not available on the Vietstock's database, so were mainly individually hand-collected from the annual reports and prospectuses of the listed companies. Manufacturing firms that had missing values in years subsequent to 2015 were excluded. As a result, the number of excluded firms in the final sample of unbalanced panel data was 172 Vietnamese manufacturing listed firms and 1296 firm-year observations during the 9-year period from 2007 to 2016. Details of the procedure for choosing the study sample are shown in Table 4-1.

The following section gives a more detailed description of the sample, including the sectoral breakdown, the number of politically connected firms compared to unconnected ones, and the number and revenue level of firms in each sector compared to the industry overall. Following the sectoral breakdown of Vietstock, the research sample is divided into six sectoral codes, namely Chemicals, Energy, Equipment, Fisheries, Food, and Material. For the assessment of the sample representativeness, it was split into the six sectors, and compared with all manufacturing firms. At the same time, a comparison in percentage terms between the revenue of the study sample and of the overall manufacturing industry was conducted to improve the evaluation of the sample.

From Table 4-2, it can be seen that the number of politically connected firms is larger than that of their unconnected counterparts, while Table 4-3 shows that the study sample in all the sectors is broadly representative of all the manufacturing firms on the stock exchanges. Of these, the Chemical sector has the highest percentage of representativeness (87.8%), whilst the Energy sector has the lowest (55.56%). Table 4-4 shows the relative percentage comparison in revenue between the sample and all manufacturing firms on the stock exchanges, with the comparison ratio ranging from 88.4% to 63.87% over the period 2007 to 2016, thereby indicating that the size of the sample constitutes a high proportion of the overall manufacturing industry in terms of revenue. However, this ratio gradually declines during the 9 year research period because the number of listed companies in all sectors rose up to the end of 2016. There was a fall in the proportion of each sector compared to the industry as a whole, excluding Energy and Equipment, which experienced a big increase in their share. In brief, it is concluded that the study sample is sufficiently representative in relation to the number and revenue level.

TABLE 4- 1: FINAL NUMBER OF COMPANIES:

Original Sample – Number of Companies	235
Less companies to be listed from 2015	20
Less companies with missing financial and corporate governance data	43
Total number of companies excluded	63
Final total number of companies	172

TABLE 4- 2: NUMBER OF POLITICALLY CONNECTED COMPARED TO UNCONNECTED COMPANIES:

Year	**The Number of Politically Connected Companies**	**The Number of Unconnected Companies**	**Total Number of Companies**
2007	30	12	42
2008	43	17	60
2009	62	24	86
2010	96	36	132
2011	106	42	146
2012	114	43	157
2013	113	51	164

2014	116	56	172
2015	115	57	172
2016	110	62	172

TABLE 4- 3: DISTRIBUTION OF FIRM SAMPLE BY SECTOR

Industry Code	Size of Firm Sample	Total Sample of Manufacturing Firms	Percentage of Sample Size to Total Sample
Chemical	36	41	87.8%
Energy	5	9	55.56%
Equipment	20	30	66.67%
Fishery	13	18	72.22%
Food	16	22	72.73%
Material	82	115	71.30%
Total	172	235	73.19%

Source: Vietstock database; author's calculations.

TABLE 4- 4: PERCENTAGE COMPARISON OF REVENUE BETWEEN THE FIRM SAMPLE AND OVERALL MANUFACTURING INDUSTRY ON THE STOCK EXCHANGES

Year	Fishery	Energy	Chemical	Equipment	Food	Material	Total
2007	25.83	0.0139	13.55	0.0005	19.73	29.28	88.40
2008	20.81	0.0141	16.7	4.97	20.30	23.56	86.35
2009	16.78	0.0119	15.55	18.73	16.48	19.05	86.60
2010	14.75	4.089	14.04	16.77	14.59	16.79	81.029
2011	12.87	11.52	12.23	14.60	12.85	14.62	78.69
2012	12.11	10.80	11.49	13.71	12.92	13.73	74.76
2013	11.88	10.57	11.25	13.42	12.83	13.44	73.39
2014	12.21	10.82	11.53	13.93	13.36	13.77	75.62

2015	11.55	10.19	10.87	13.13	12.84	12.98	71.56
2016	11.43	3.054	10.72	12.94	12.93	12.80	63.87

Source: Author's calculations; Vietstock database

4.7. METHODOLOGY:

The aim of this section is to briefly explain the various methods selected in order to analyse the data. Based on Saunders et al. (2003) and Zikmund (2012), the primary purpose of conducting any study is to provide information to facilitate the answering of the research questions. In order to obtain the relevant information, raw data are gathered, and then analysed with the assistance of analytical methods to aid the decision-making process (Davis, 1996). According to Zikmund (2012), there are three main determinants which guide the researcher in the choice of a particular type of statistical analysis to help come to concrete conclusions: (1) the type of question to be answered; (2) the number of variables; and (3) the scale of measurement.

The purpose of this study is to enhance understanding of the relationship between political connection and companies' market-based performance. The central questions are relevant to the main impact of political connection on the performance of listed companies in the manufacturing sector and are what drive this conjunction. This is associated with the diverse theoretical frameworks and other empirical research applied to the analysis of political connections and firms' market-based performance. The three research goals are re-stated as follows:

1. To determine whether there is a relationship between the existence of and the different types and strength of political connection and the market-based performance of Vietnamese companies.
2. To determine whether the effect of political connections on firm performance can be shaped by ownership structure, namely state-owned enterprises versus non-state-owned enterprises.
3. To determine whether the effect of political connection on firm performance might be contingent on the development of different institutional indicators.

4.7.1. DESCRIPTIVE STATISTICS:

Descriptive statistics are described as the starting point for any statistical analysis as they help to uncover any abnormalities in the data collected. Descriptive analysis is specifically useful because it is a holistic approach that indicates preliminary, but useful, features of the data. In the empirical chapters of this research, descriptive analysis consisting of calculation of the mean, standard deviation, and maximum and minimum values will be presented.

4.7.2. BIVARIATE ANALYSIS:

In order to test the association between the variables, bivariate analysis is employed (Zikmund, 2012). Based on Zikmund (2012), such analysis aims to test the hypothesis that the relationship between two or more variables differs. On the other hand, the measures of association refer to the values designed to represent co-variation between the variables. Pearson's correlation coefficient was chosen to calculate this association between the individual variables, which considers the joint variation in two measures (Ghauri & Grønhaug, 2005). The test helps to determine the intensity of the relationship between two variables. The coefficient of correlation assumes a value ranging from -1 to +1. A variable with coefficients closer to either -1 to +1 shows a stronger association (negative or positive), whereas a correlation coefficient of zero indicates that the variables are not associated. In this study, a correlation matrix is used to test whether the inclusion of various independent variables in the models will not result in any problems of multicollinearity among them. The results of the analysis are discussed in the empirical chapters of the study.

4.7.3. ECONOMETRIC ANALYSIS:

Panel data analysis is employed to answer the three main research questions. This technique arranges the repeated observations over time of a cross-section of firms, individuals, countries etc. The technique comprises two dimensions (time series and cross-section), which helps to provide sufficient information about the data. Panel data have a number of advantages over regular time-series or cross-section studies. Firstly, they control for individual heterogeneity. Unlike time-series and cross-section techniques, panel data explain that individual firms are heterogeneous so do not entail the risk of acquiring biased findings (Baltagi, 2005). Secondly, panel data offer more informative data, adequate variability, less collinearity, more degrees of freedom and greater efficiency (Baltagi, 2005).

Thirdly, panel data can better detect and measure effects which cannot be simply observed in pure cross-sections (Hsiao, 2003). Panel data can discover the dynamics of adjustment over time in a given set of data. Finally, under certain assumptions, panel data can be used to obtain consistent estimators if certain variables are omitted (Wooldridge, 2002). These omitted or unobserved variables are usually presented to the error term in the use of cross-section data. If there are correlations between these omitted or unobservable variables and the dependent variables, ordinary least squares (OLS) will produce the biased estimates. If panel data are available on individuals over time, this problem may be resolved.

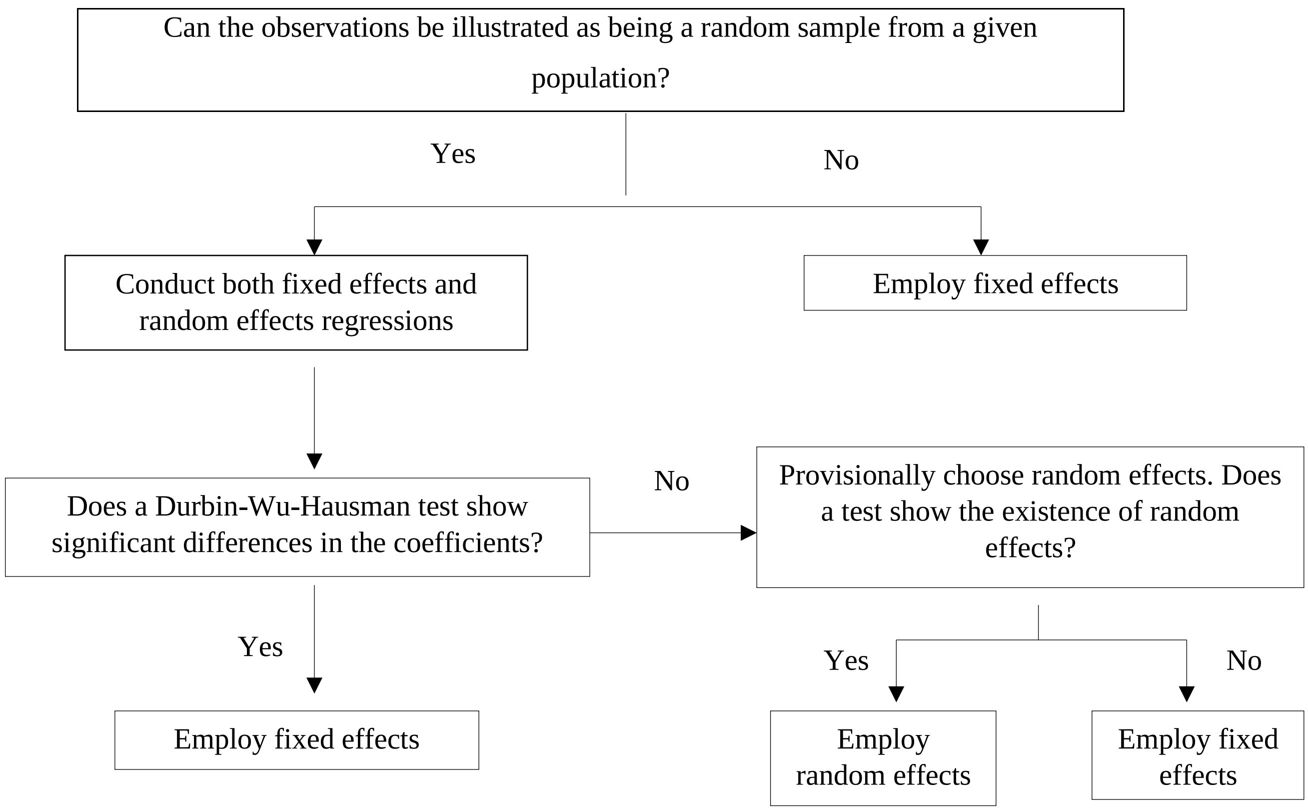
A classical panel data regression is shown as follows:

$$Y_{it} = \alpha + x_{it}\beta + \mu_i + \gamma_i + \varepsilon_{it},$$

where Y_{it} is the dependent variable for the observation; subscript i denotes the cross-section dimension (e.g., industries, countries, regions, etc.); subscript t shows the time-series dimension (e.g., years, months, quarters, etc). x_{it} is a vector of observations of the explanatory variables; β is a vector of unknown coefficients; μ_i is the unobserved individual specific effect; γ_i is an unobserved time specific effect; and ε_{it} is the zero mean random disturbance. From the above model, a panel data equation can be estimated using one way errors (μ_i + ε_{it}) or two way errors (μ_i + ε_{it} + γ_i).

In order to proceed with the analysis and to achieve the panel data model, it is essential to choose whether the cross-section effects of each individual unit are constant, fixed or random. However, the selection of the method will be concluded after the application of the statistical tests. Therefore, all the models will be estimated and discussed in the following paragraphs and the essential tests applied to them before the appropriate model is chosen. Figure 4-1 shows the conditions under which a particular panel regression model should be adopted. The details of the processes involved are given in the subsequent sections of this chapter.

FIGURE 4- 1: PANEL DATA REGRESSION EFFECT DECISION TREE



Source: Dougherty (2007)

4.7.4.1. FIXED EFFECTS (FE):

In the concept of fixed-effect models, there is the assumption that for all sampled companies, the slope coefficients are constant throughout, but that there are variations in the intercepts. It is also assumed that there is a correlation between the individual specific effects and the independent variable, and that there is thus no need to consider that the effects of the error term ε_{it} are independent. In the fixed-effects model, the effects of variables whose values are fixed across time are not estimated. Instead, they are controlled fully or partially over time. According to Williams (2012), there are the omitted variables which are correlated with other variables in the model; it is then likely that the fixed-effect model may offer the solutions to controlling omitted variable bias. Therefore, the subjects serve as their own controls in the fixed-effects model. In addition, whatever effects the omitted variable have on the subject at one time, they will also have the same effect later, meaning the effects will be constant or fixed. It has been believed that the fixed-effects estimation is more important, as in some cases the data can fall into categories such as industries, states or families. Baltagi (2005) also reveals that fixed effects estimation is suitable when the intention is to concentrate on a specific set (N) of companies or regions. However, if there are variations within the subjects, the standard errors from fixed-effect estimation may be too large to tolerate. One weakness of such estimation is that too many dummies may lead to the problem of multicollinearity among the independent variables.

4.7.4.2. RANDOM EFFECTS (RE)

Random effects (RE) estimation is considered as appropriate when there are no omitted variables, or when the omitted variables are not correlated with the explanatory ones in the model. In such a case, the random effects model is expected to deliver unbiased estimates of the coefficients, to employ all the data availability, and to create the lowest standard error (Williams, 2012). As argued by Taylor (2015), the effect is random if the levels that are observed in a group are to be sampled from a large population.

In support of the use of random effects estimation, Clark & Linzer (2015) suggest that it creates a compromise between fixed effects estimation and pool models, and thus steers estimates of the regression coefficient away from the less-stable fixed effects estimation and is nearly equal to more-stable pooled estimates. There are more degrees of freedom in the use of random-effects estimation because it includes estimation of the parameters which can describe the intercept distribution. Moreover, the random-effects model is the preferred one, as it can estimate the coefficients of the explanatory variables constantly over the period in question. However, the limitation of random effects estimation is that although it predicts the effect of time-invariant variables, the estimates may be biased, because the omitted variables are not controlled. Moreover, Hsiao (2003) indicates that when using the random-effects model, one of its major limitations is the need to assume the patterns of correlation present in the effects and explanatory variables.

4.7.4.4. HAUSMAN TEST:

The Durbin-Wu-Hausman (DWH) test (commonly called the Hausman test) is the most commonly employed test to decide on whether the fixed or random effects model should be selected for a specific panel data analysis. It first has to test for the correlation between the explanatory variables and the unobserved heterogeneity of each unit of the model. If no correlation is found, the random-effects (between groups) GLS estimator can be employed for the estimations. However, the random-effects can become biased, as the correlations between the independent variables and the unobserved heterogeneity become stronger, which makes the fixed effects model preferable. If a correlation is found, the fixed-effects (within group) estimator can be used to obtain a consistent estimation of the intercepts.

In the test for the choice of specification models, when the results of the Hausman test show that the p-value that is less than 0.05, there is correlation between the independent variables and the unobserved heterogeneity of each unit of the model. Therefore, the fixed-effects estimator is selected. In contrast, if the results of the Hausman test show a p-value greater than 0.05, there is no correlation between the independent variables and the unobserved heterogeneity of each unit of the model. Therefore, the random-effects model is chosen.

4.7.4.5. GENERALIZED METHOD OF MOMENTS (GMM)

An additional issue encountered in corporate governance and finance studies is the likelihood of interrelationships between dependent and independent variables, which leads to endogeneity in the model. This is the presence of correlation between the explanatory variable and the error term, stemming from the existence of causality among the dependent and independent variables (Wooldridge, 2002). In other words, the problem of endogeneity is likely to occur as the explanatory and dependent variables are simultaneously determined. It is observed that the problem of endogeneity is caused by three determinants, namely errors in measurements of the variables, the presence of causality among the dependent and independent variables, and omission of important variables. There are two universal GMM estimator approaches for dynamic panel data, namely difference GMM and system GMM estimators. Compared to the difference GMM approach, system GMM provides lower finite sample bias and greater estimation accuracy (Blundell & Bond, 2000). Therefore, this thesis employs the system GMM approach to deal with the endogeneity involved in the simultaneous determination of key variables in the theoretical model. Moreover, to reduce the number of instruments produced in the system GMM, the thesis incorporates the option of collapse in the system GMM techniques. This way of reducing the number of instruments was suggested by Roodman (2009), because having too many instruments (relative to the number of firms) makes estimation results unreliable.

In order to guarantee the validity of this system approach in the thesis, a set of diagnostic tests was conducted. The first was the Arellano-Bond test, which provides evidence that the consistency of the Arellano and Bond estimator relies upon the assumption that the errors are not serially correlated. In this case, it is important to test for the presence of serial correlation. The Arellano-Bond test reports the first and second order serial correlation of the differenced residuals. Therefore, the presence of first order serial correlation should be evident, but no second order serial correlation (Roodman, 2009). The second diagnostic test is the Hansen test for over-identifying restrictions, which is used to test the overall validity of the instruments in the application of GMM technique. The null hypothesis for the Hansen J test is that the instruments are valid, thus showing that they are not correlated with the errors in the first differenced equation (Roodman, 2009).

Difference and system GMM techniques are typically employed in one-step and two-step variants. One-step GMM estimators consider the weight matrices to be the independent if parameters are estimated, whereas the two-step GMM estimator considers the moment conditions via a consistent estimate of their covariance matrix (Windmeijer, 2005). In general, the two-step GMM estimator results in smaller asymptotic variance, and statistical tests based on this estimator tend to be asymptotically more robust than those based on the one-step estimator (Hwang & Sun, 2018). Therefore, this study uses the two-step procedure to produce more efficient estimates of the system GMM technique.

In a nutshell, to address the problem of endogeneity which is likely to be encountered in the study, GMM-dynamic panel estimation is employed as a robustness check to check the results of the static-fixed effect baseline model.

4..8. THE CHAPTER SUMMARY:

This chapter has provided a detailed discussion of the methodology utilised in the research, together with presentation and discussion of the various procedures used to answer the research questions. The HOSE and HNX stock exchanges were used as the population for the study, over the period 31 December 2007 to 31 December 2016. The remaining sections of the chapter explained the research methods, with the analysis of the econometrics used in the thesis.

CHAPTER 5: THE EFFECTS OF POLITICAL CONNECTION AND ITS INTERACTION WITH STATE OWNERSHIP ON FIRM PERFORMANCE

5.1. INTRODUCTION:

As argued in Chapter 3, political connections become widespread in the settings with weak property rights protection (Fan et al., 2007; Zhang *et al.*, 2014), while the study of Goldman et al. (2009) found such connections to be common in the United States. The issue of the relationship between business and government also exists in emerging countries such as Vietnam. One of the most notable studies to have paid attention to this problem is that of Malesky & Taussig (2009). In general, studies evaluating the effect of political connection across multiple countries are less widespread because of country heterogeneity and varied political scenarios, so studies on individual countries are therefore more common (Wong et al., 2018). Vietnam is one of the underexplored country in this field, given its focus on the 'relationship-based' model of economic development which has spurred the growth of its economy over the last decade (Markussen & Tarp, 2014). In addition, given the regulatory states across nations, Hillman (2005) also argues that future research should explore the issue from a single country perspective. Consequently, this study seeks to investigate how political connection influences firm performance in a single country, Vietnam. The findings from the analysis will contribute to the growing literature on the role of political connection in emerging countries by providing more insights into how it influences firm performance in Vietnam. Moreover, the study attempts to divide political connection in Vietnam into four different types, with the data hand-collected, which is a laborious task, but which allows for the production of insights into how different types of political connection could have different impacts on firm performance. The few studies on Vietnam do not extend to such detailed relationships (Malesky & Taussig, 2009). The findings from this chapter demonstrate a negative relationship between political connection and firm performance, and closely align with the agency theory, identifying that the politically connected directors might not integrate their interests with the maximisation of the company performance. By virtue of this, agency problems could arise in the companies and the corporate governance structure will become less efficient when politically connected directors are present on the board.

Furthermore, it is evident that although many studies have focused on evaluating the consequences resulting from the acquisition of the firms' political connection, there is a dearth of research relating to many institutional and contextual determinants in order to examine the specific empirical outcomes of political connection. The rationale to take into account with regard to ownership structure is that the motive for non-SOEs to have politically connected members of boards of directors and supervisory boards is different from that of SOEs. Among such determinants, ownership structure is likely to affect the relationship between political connection and firm performance (Wang, 2015; Xu et al., 2015). Between 2007 and 2016, a key characteristic of many Vietnamese listed companies was the dominance of former state-controlled enterprises that were listed through share-issuing privatisation, and in which Vietnamese state-owned business groups remained significant shareholders after the firm's partial privatisation (Kim et al. 2010; Tran et al. 2017). Indeed, the empirical results of some previous studies show the importance of separating the effects of political connectedness in state-controlled and privately controlled enterprises, especially in circumstances in which the government still controls the power over the allocation of economic resources (Fan et al., 2007; Li *et al.*, 2008; Chen *et al.*, 2017). More specifically, the appointment of politically connected board directors in listed state-controlled enterprises is one mechanism used by the government to pursue its own political and social goals; e.g., cross-subsidising state-controlled enterprises in the financially troubled situations, or conducting overinvestment to reduce unemployment and to boost GDP growth. This practice exacerbates the tunnelling motives of the controlling shareholder and contradicts the role of board directors in maximising firm performance.

In contrast to the Vietnamese listed state-controlled enterprises, listed privately controlled enterprises tend to have to confront an unfavourable business environment. A potential solution for entrepreneurs in such enterprises is to build close relationships with politicians;

for instance, by appointing them as members on boards of directors or supervisory boards, in order to resolve any ideological discrimination in relation to their non-state characteristics and to have access to key resources controlled by the Vietnamese government (Malesky & Taussig, 2009). Therefore, the appointment of politically connected board directors serves as a substitute for the protection of property rights in listed privately controlled enterprises. However, few studies have analysed the relationship between political connection and firm performance with regard to state-controlled and non-state-controlled enterprises, and these only focus on Chinese samples of listed enterprises (Wang, 2015; Wu et al., 2018; N. Xu et al., 2016). On the other hand, different to other emerging countries, and despite the fact that Vietnam has acknowledged the potential development and contribution of the private sector to the Vietnamese economy, and starting the privatisation process in 1990, the model of economic development in Vietnam appears to be conflicting. In this regard, the Vietnamese government still considers the state economic sector as a leading economic development force in Vietnam, whereas the private sector, although acknowledged since 1990, continues to fall behind. Therefore, faced with a biased environment, the private sector in Vietnam may employ the political social capital in the form of political connection differently to the state sector (Nguyen et al., 2009). This evidence makes Vietnam a suitable institutional background to investigate the effect of political connection on firm performance between the state-controlled and non-state-controlled enterprises. Furthermore, as suggested in Chapter 2, the government in Vietnam does not directly control the listed companies through ownership, establishing state-owned business groups to represent the state ownership and assets of the companies. According to Okhmatovskiy (2010), ties to the state via state-owned enterprises and the government have the different features. In particular, ties to state-owned enterprises may bring many benefits to the firms by having access to resources and critical information on market conditions, whereas ties to the government may result in companies pursuing political or social agendas. For that reason, due to the specific nature of state ownership, mainly in the form of state-owned business groups, this study also considers the role of political connection in the listed manufacturing enterprises controlled by state-owned business groups. Moreover, the types of political connection covered in the study are broader than those of other previous studies, which is indicative of the extensive effect of political connection on firm performance in the Vietnamese context. Therefore, based on the above arguments, the purpose of this chapter is to evaluate whether the performance effect of political connection differs between listed state-controlled enterprises and listed privately controlled enterprises in the sample of manufacturing companies in Vietnam during the period 2007 to 2016. The findings from the research will help to increase the generalisation of the findings of the few studies in China. By using different data sources and industries, and a single emerging country, the study sheds new light on how Vietnamese listed state-controlled and non-state-controlled enterprises employ politically connected members of the board of directors or supervisory board in the manufacturing industry.

The empirical results are robust to those from the two-way system GMM technique controlling for the endogeneity issue and the uses of the first type and strength of political connection. Regarding other types of political connection, this chapter find no evidence for their relationship with firm performance. Additionally, in line with previous studies (Sun et al., 2016; L. Wang, 2015), this study employs the different measurement of the percentage of politically connected directors on the board, discovering an insignificant effect of this measurement on firm performance. The structure of the chapter is structured as follows: section 5.1 presents the conceptual frameworks and hypothesis development, section 5.2 comprises the data analysis and discussions, while the final section draws the conclusions and discusses the contributions of the findings to research on political connection.

5.2. HYPOTHESIS DEVELOPMENT:

5.2.1. HOW POLITICAL CONNECTION INFLUENCES FIRM PERFORMANCE:

Resource-dependence theory proposes that companies may employ political connections to deal with the uncertainty in the business environment and to acquire government-controlled resources. As summarised in Chapter 2, private companies in Vietnam operate in a hostile environment (Vu et al., 2015; Malesky & Taussig, 2009). Obtaining political legitimacy and government-controlled resources is therefore important for their survival and success. Many studies show that in the advanced economies, the rights of private companies to operate freely are guaranteed by the institutional infrastructure. In a transitional economy such as Vietnam, such rights are not guaranteed automatically due to the lack of supporting-market institutions (Malesky & Taussig, 2009). Private companies follow strategic actions to create their legitimacy in society in order to eradicate the negative effects of the unfavourable political, economic and legal environment. Establishing political connections is one crucial and effective legitimacy-building strategy (Vu et al., 2015).

As discussed in Chapter 3, political connection has its own benefits, consisting of favourable regulatory conditions, access to credit markets and bank loans, preferential treatment in competition for government contracts, and lower taxation (Faccio et al., 2006), all of which ultimately improve financial returns and firm performance (Fisman, 2001; Li et al., 2008). In the context of the Vietnamese transitional economy, political connection has become strategically crucial, helping firms to achieve competitive advantages. Political alliances are an important determinant for Vietnamese executives in the negotiation and enforcement of contracts in the absence of a mature legal system and market-supporting mechanisms (Nguyen et al., 2009). Through their executives, Vietnamese companies often utilise political connections with the government to obtain government support and favourable treatment, which can help to effectively eradicate political uncertainty (Nguyen, et al. 2009). Political connections give Vietnamese companies more confidence in the legal system (Malesky & Taussig, 2009) and help companies to acquire the resources from the government (Rand, 2017). Following this thread in the literature on political alliances in Vietnam, a positive impact of political connections on firm performance in Vietnam is anticipated. Hence, the first testable hypothesis is as follows:

Hypothesis 5.1: The presence of politically connected members of boards of directors or supervisory boards will positively influence firm performance.

However, the way in which resources from the government are exploited depends upon the management skills and capacities of board of director members. The dark side of political connection encourages firms to pursue other goals that are not in line with the value maximisation, including political goals (Okhmatovskiy, 2010) and individual rent-seeking goals (You et al., 2012; Cao et al., 2017). Therefore, in terms of corporate governance, such action will likely result in agency problems, which in turn will impair firm performance and the interests of minority shareholders (Ding et al., 2014; Saeed et al., 2017). More importantly, considering the low institutional development and higher levels of corruption in less developed economies such as Vietnam, the influence of political connections may tend to be negative (Malesky & Taussig, 2009; OECD, 2013). According to Malesky & Taussig (2009), politically connected owners in Vietnamese companies have the advantage of receiving government support and resources, but they tend to operate their company less efficiently compared to unconnected business owners. In such a situation, the negative facet of political connection may outweigh the positive. Therefore, the following counter hypothesis to 5.1 is postulated:

Hypothesis 5.2: The presence of politically connected board directors or supervisory board members will negatively influence firm performance.

In a transitional economy such as Vietnam, the state plays conflicting roles as social welfare administrator and controlling shareholder of state-owned enterprises. This situation creates incentives for self-interested governments to utilise their political power over state-owned enterprises for social and political goals. The political cost of government intervention is a major hindrance to the efficient operation and performance of these enterprises (Zhang et al., 2016; Shleifer & Vishny, 1994; Shleifer & Vishny, 1998).

Although government intervention inevitably distorts the value maximisation objective of state-controlled enterprises (Boubakri et al., 2008), the extent of such interventions in fact varies across different listed firms. In Vietnam, the privatisation process through economic reform helps state-owned enterprises to pay more attentions to maximising their value, and the establishment of state-owned business groups results in a buffer between government and firms that have lower direct intervention from local governments (Vu et al., 2015). To have better control over and wider intervention into listed state-controlled enterprises, the government prefers to assign politically connected managers who hold current or former government positions, as their goals are more aligned with those of government, and they are better at implementing preferred government policies in state-owned enterprises (Fan et al., 2007; Wu et al., 2012).

In addition to encouraging government intervention, politically connected managers are motivated to execute government agendas because, (i) their financial compensation is not usually associated with firms' financial performance (Firth et al., 2013) and they are less likely to be punished for poor performance (You et al., 2012); and (ii) their future political promotion or long-term career development is based on their contribution to social objectives. Overall, the interests of politically connected managers in state-controlled enterprises are linked to the government, not to minority shareholders. Previous studies have shown that political connections usually lead to underperformance in terms of firm value, market performance, growth in sales and profit, and investment efficiency (Fan et al., 2007; Boubakri et al., 2008; Saeed et al., 2017). In other words, because of the social welfare administrator's role in state-owned enterprises, firms' SOE status is likely to be a moderating variable which influences the relationship between political connections and firm performance. Therefore, it is hypothesised that the value effect of political connections will be moderated by the ownership structure of enterprises in Vietnam. Based on this argument, the following hypothesis is proposed:

Hypothesis 5.3: State-controlled companies with politically connected members of boards of directors and supervisory boards have lower performance than those without them.

The primary goal of non-SOEs is to maximise their value, which is why political connections are sought and maintained, particularly if they will lead to economic benefit and help in obtaining privileges in the business market. Nguyen et al. (2009) adopt the institutional perspective and argue that networking increases a firm's legitimacy, which in turn positively affects its access to government resources. In the absence of effective market institutions, networks play an important role in spreading knowledge about a firm's presence and its practices. Networks also facilitate a firm's learning of appropriate behaviours, allowing it to obtain necessary support from key stakeholders and the general public. In most cases, networking substitutes for the lack of an effective market and can be an effective way for non-state-owned enterprises to facilitate their operations in emerging economies. In reality, political connection is one type of networking which helps to increase the legitimacy of entrepreneurial firms and avoid the major threats from external stakeholders in the business environment (Cao et al., 2016). Therefore, political connection brings many major benefits for the value of entrepreneurial firms in the institutional context of emerging countries characterised by low legitimacy towards non-state-owned enterprises and weak market institutions. The incentive for private firms to establish connections with the government is ultimately due to the state control of key resources in the market, because key investment opportunities in Vietnam are still controlled and regulated by the government (Malesky & Taussig, 2009). According to the helping-hand and resource-based views of political connection, this tie may be beneficial for Vietnamese privately-controlled firms, which unlike state-controlled enterprises, do not have state ownership as a blood tie with the government. Therefore, it is hypothesised that:

Hypothesis 5.4: Privately-controlled companies with politically connected members of boards of directors or supervisory boards have higher performance than those without them.

5.3. EMPIRICAL STRATEGY:

5.3.1. DEFINITION OF THE VARIABLES:

The financial variables for the sample of firms in this chapter were mainly collected from the Vietstock database and were subject to the availability of data for each firm. For the biographical information of the directors or supervisory board members, the data were obtained from the annual reports of each company, taken from their website. The advantage of financial and biographical data is that it is always available from the annual and financial reports of the listed companies. Furthermore, these sources of data are annually audited by the prestigious audit companies, namely the Big4. These companies are formally accepted by and subject to the regulations of the securities commission of Vietnam.

For the dependent variable, to quantify the economic value of the firms, Tobin's Q was employed for the main analysis (Chen et al., 2017; Chan et al., 2017). The formula for Tobin's Q is the ratio of the market value of a firm's assets over their replacement cost. In principle, this market value can be computed by taking the market value of the firm's debt and equity, while the replacement cost of assets can be computed from accounting information and the price at which assets can be purchased or sold[12]. However, in reality, calculation of the market value of debt is a difficult task, so this study follows previous studies (Chen et al. 2017; Tran et al. 2017) by using the book value of debt. In summary, the usual formula of Tobin's Q is the ratio of book value of debt plus the market value of the equity to book value of total assets. In line with previous studies on Vietnam (Phung & Mishra, 2016; Tran et al., 2017), this study employed data at every fiscal year-end[13] to calculate Tobin's Q because the data had just been made publicly available on this date on the Stock Exchanges, according to the regulations of the Securities Commission. Because the financial data for the calculation of Tobin's Q varies annually, there are the variations of its value in each fiscal year-end. There are several arguments against the utilisation of accounting-based measures of performance in the finance and strategy literature (Amit & Livnat, 1989; Montgomery & Wernerfelt, 1988). Some significant problems have been suggested concerning accounting-based performance; for example: a) it typically only reflects past information and is not foward looking; b) it is not adjusted for risk; and c) it is flawed by temporary disequilibrium effects, tax laws, and accounting traditions (Bharadwaj et al., 1999). In addition, accounting measures of firm performance are not susceptible to the time lags essential for capturing the potential of capital investment. In order to tackle such problems, the financial market-based measure was employed as

[12] The usual formula of Tobin's Q is the ratio of the book value of debt plus the market value of equity to book value of assets

[13] The fiscal year-end date is 31 December.

Tobin's Q as it is forward-looking, risk-adjusted, and less sensitive to variations in accounting practices (Montgomery & Wernerfelt, 1988). By virtue of its superior performance over other financial performance indicators, Tobin's Q is considered to be the most appropriate measure of financial performance (Chen et al., 2017).

For the independent variable, to code political connection, information was collected from the biographies of each listed firm's chairman, board members, chief executive officer (CEO) and all other top executives/non-executives. The identification of political connection based upon their biographies stems from the viewpoint of social capital, in that the bridging political social capital of directors, CEOs, board members, and all other top executives/non-executives on the board are deemed to be an intangible asset in helping the firm to obtain competitive advantages over its counterparts (Cao et al., 2016). The personal background of the CEO, chairman, board members and other directors is officially published in primary data sources such as annual reports and prospectuses. These documents were downloaded from the website of finance.vietstock.vn (finance.vietstock.vn). The definitions of political connection used in the study are as follows:

One important characteristic of the Vietnamese economy is that there is a firm-level Communist Party Committee (CPC) in every state-controlled enterprise, and on certain occasions, a CPC member (secretary, deputy secretary, or any committee member) may engage in the control of a firm as a director, supervisor, or senior executive (Li et al., 2017). Generally speaking, a distinct characteristic of Vietnam that differentiates it from other transition countries is the continuous rule of the Communist Party and the continuous ideological discrimination against private ownership, regardless of the dramatic reform of the economy (Malesky & Taussig, 2009). Party membership in Vietnam confers a measure of political status, and more importantly, shows a certain connection with the only ruling party in Vietnam (Perkins & Anh, 2009). In a setting in which scepticism, mistrust and discrimination continue to be faced by private enterprises continue to exist, ties to the ruling party demonstrate congruence and trustworthiness (Nguyen, 2016). Consequently, solid connections with the ruling party convey a perception to government officials that the firm can be trusted. Granting executives or non-executives party membership shows that they have gone through a careful screening process and will adhere to the party agenda and ideology (Li et al., 2008). It also indicates their pledge to be committed to a greater level of political scrutiny and responsibility, and consequently the firms with executivies or non-executives who are party membership tend to be favoured, as they do not threaten the legitimacy of the Communist Party in Vietnam (Harvie, 1997). As party members, owners are required to participate in party activities on a regular basis, meaning they have more opportunities to interact with government officials who are also Communist Party members. Engaging in such activities may help owners to advance both the quantity and quality of their personal relationships with government officials, giving them with more opportunities to procure preferential treatment (Chen et al., 2012). As a result, this study suggests that CPC control, with regard to having a CPC member as a director, supervisor, or senior executive, may advance firm performance.

In the Constitution of Vietnam, the National Assembly is recognised as the highest government organisation and the highest-level representative body of the people. The general function of the National Assembly is to make, amend and adopt laws and policies, as well as to appoint the top government officials in central government. Therefore, becoming a member of the National Assembly may pave the way for someone to be involved in discussing and dealing with national affairs. Furthermore, members also have the opportunity to query top government officials, namely the ministers, about the ongoing economic and societal issues.

In other words, the members of the National Assembly have a in-deep professional and practical know-how, a high degree of reputation and respect from others, and very close links with other top government officials in central and local government (Bui, 2016). As a result, National Assembly members serving as directors, supervisors, board members, or senior executives may help their firm to obtain legitimate recognition in a business landscape which discriminates against the private ownership (Chen et al., 2012). In addition, the reputation and influence of National Assembly members serving may afford the company preferential treatment from the state, giving them access to resources that are not accessible on the free market, restraining complex government red tape, and procuring legal or non-legal protection for their business (Brockman et al., 2013; Sun et al., 2016). Unlike the National Assembly, the People's Council is the highest government organisation at the provincial level, and is in the charge of resolving provincial affairs, and supervising and managing the Provincial Government in its jurisdiction. The members of the People's Council also have a major influence and high social status in their province, so hiring them may provide a firm with a business edge in winning provincial government contracts or obtaining beneficial information for its economic and operational activities (Bui, 2016). From the above arguments, current or former members of the National Assembly or People's Council can be considered as types of political connection. It is expected that appointing members of National Assembly or People's Council will have a postive impact upon firm performance.

In Vietnam, industry associations play a crucial role in delivering messages on industry health and dialoguing with the government in seeking the possible solutions to reducing the regulatory and business obstacles confronted by them, especially in the times of economic turmoil (Tran et al., 2007). On a regular basis, members of industry association have formal meetings with top government officials, such as the prime minister or ministers. On these occasions, they may be given the opportunity to interact with top government officials, and accordingly they are likely to build trusted relationships with major political figures. In some cases, industry associations may be considered as quasi-governmental organisations which help the government by contributing ideas to formulate industrial policy (Tran et al., 2007). In addition, membership of industry associations also implies a measure of political connection due to their tight networking with political leaders, and it is expected that members of Industry Association serving as board members, directors, supervisors or executives have a positive effect on firm performance.

Employing former or current government officials and individuals who are closely linked to the party hierarchy is one approach that firms can use to help them to acquire legitimacy in the society in which they work (Fan et al., 2007; Sojli & Tham, 2017). Many firms in Vietnam may consider political background as one of the criteria in the selection process, as hiring former or current government officials as employees and advisers enables privately-owned companies to ease the uncertainties confronting their business (Tran et al., 2017). Therefore, this study follows previous literature (Boubakri et al., 2008; Fan et al., 2007) by including current or former government officials as a measure of political connection, based on the argument that they play a relatively influential role in the Vietnamese business climate. In the Vietnamese political system, there are two types of government official: civil servants in charge of administrative duties, and cadres in charge of professional duties[14]. Civil servants are often responsible for performing civil jobs in the public sector, maintaining law enforcement, and overseeing market conditions. In certain companies, the appointment of civil servants to the board reflects the willingness of the government to protect state capital and assets, and to adhere to their political goals, namely high national economic growth and reduction of the unemployment rate (Okhmatovskiy, 2010; Tihanyi et al., 2019). Hiring former civil servants is also beneficial to firms because of their previous political kinships or influence in the political hierarchy (Johansson & Feng, 2016; Yang et al., 2015). In contrast, cadres often focus on professional or skilled tasks, namely research, teaching or medicine. From these, lecturers, researchers or cadres in state-affiliated universities or institutions are deemed to be a second type of government official. Some studies have cited the benefits accrued by hiring lecturers or academic cadres as professional advisers or experts (Shin et al., 2017). Through being governmental officials, moreover, lecturers and academic cadres are obliged to follow party ideology, which may motivate firms to hire them in order to build a legitimate reputation in the eyes of other government officials (Haveman et al., 2017; Shi et al., 2018). All things

[14] See further details at http://vietnamlawmagazine.vn/ongoing-reform-of-the-civil-service-in-vietnam-6108.html

considered, it is hypothesised that the effect of hiring both types of government official on firm performance is positive.

As a consequence, this study uses implicit and explicit measures to define directors, supervisors, CEOs, chairmen and board members as being politically connected if they are or used to be, (1) a government offical, military, court or procuracy member, or a member of the National Council or People's Council (2) a member of Communist Party Committee at firm level; (3) members of various industry associations; and (4) a lecturer or cadre in many government-affiliated academic institutions or universities. The study divides the definition of political connection into the functions of each component. The first component includes the civil servants, and politicians in the charge of administrative duties and of resolving political affairs at national, provincial and local levels. The second component is associated with maintaining party ideology at the firm-level, while the third concentrates on the industry association representatives with a powerful voice and influence over government actions. The final components are those who provide professional advice, and help firms to build legitimacy in the business climate.

To find proxies for political connections, previous studies have often used a dummy variable for measurement purpose (Faccio, 2005; Fan et al., 2007; L. Wang, 2015). In statistics and econometrics, particularly in regression analysis, a dummy variable only takes a value of 0 or 1 to convey the absence or existence of a certain categorical effect that may be expected to influence the outcome (Hardy, 1993). Such proxies can be thought of as numerical stand-ins for qualitative facts in a regression model, sorting data into mutually exclusive categories (e.g. political connection and non-political connection in this study). A dummy independent variable (also called a dummy explanatory variable) taking a value of 0 in observations means that there is no influence of the dummy variable upon the dependent variable, while a value of 1 implies an impact equal to the value of the coefficient upon the outcome variable (Hardy, 1993). The advantage of using dummy measurement is that it is easy to capture of information about the existence or absence of political connection in the regression specifications, which may calculate the frequency of its appearance (Faccio et al., 2006; Sun et al., 2016). Therefore, if the firm has the presence or existence of political connections on its board, the value of the dummy variable of political connection (PCON) is coded as 1 and 0 otherwise. The data were collected every year over the period 2007 to 2016 because the information could be changed over the year. Likewise, the presence of political connections could change every year; the dummy variable of political connection could take the value of 1 in some years and 0 in others. This is because the members of the board of directors may not have worked for the firm throughout the period. In some circumstances, directors reach retirement age, change job, or are promoted to a political career. This is in line with previous studies, in which some companies may lose their political connections over the research period (Haveman et al., 2017; Hung et al., 2017).

However, although a large body of previous studies has endeavoured to develop various measurements of political connection, quantifying its nature and concept has been found to be a difficult task (Wu et al., 2018; Wu et al., 2012). The use of dummy measurements of political connection may result in the lack of a full evaluation of important political connection-related information, for example the identity of politically connected directors; current or previous positions; length of tenure in the political hierarchy; the degree of their contribution to corporate governance efficiency relative to the size of the board; the strength and weight of political connection; and the interactions between the political connections on the board. Despite the shortcomings of calibrating the nature of political connection with dummy measurements, this study attempts to make a further step in developing the continuous measurement scale by quantifying the strength of political connection conditional upon political administrative rankings, thereby fitting the Vietnamese context. The rationale to quantify the strength of political connection stems from the fact that this measure can ascertain the number of politically connected executives/non-executives, their level of interaction on the board in influencing firm performance, and the very different relationships with the bases of power in the country that the executives/non-executives hold (Johansson & Feng, 2016). However, the limitation in the construction of the strength of political connection in the study is that it does not incorporate the current tenure of politically connected executives/non-executives or those they have held in the past or currently into the formula. It is thus argued that long periods of tenure of politicians serving as executives/non-executives might be favourable for them in building a more powerful political base upon which the firm may be contingent in serving its operations (Chen et al., 2017).

The Vietnamese political regime consists of three fundamental systems: the administrative government, the National Assembly, and the Provincial/Regional and Local/City People's Council. The administrative government has three levels: The central/national level (Level 1); the provincial/regional level (Level 2); and the local/city level (Level 3). Level 1 is generally relevant to the ministries and agencies under the National Assembly's direct supervision, while Level 2 is relevant to the provincial government officials and encompasses the administrative agencies and bureaus in the provinces, autonomous regions, and centrally controlled municipalities, under provincial/regional People's Council direct supervision. Finally, Level 3 is below the provincial level and consists of urban districts and county-level cities, under the local/city level People's Council direct supervision. Companies can build political connections with politicians and bureaucrats at each of the three levels of government, the National Assembly, and the People's Council through a large number of channels. For instance, it is possible for a CEO to establish connections with the government, the National Assembly, the People's Council at provincial/regional or local/city level or at all three levels. All of the various and interrelated channels through which a firm's directors, board members, supervisors, and executives/non-executives can be politically connected are conducive to creating a single, unified measure to evaluate variations in the extent of the connections across companies.

This study initially considers firm's annual reports released from 2007 to 2016, concentrating upon the biographies of directors, board members, supervisors, and executives/non-executives to obtain information on (1) the names and titles of those who are politically connected; (2) their connection channels, namely the government, National

Assembly, or People's Council; (3) the level of those channels - that is, central, provincial/regional, or local/city; (4) their positions; and (5) the corresponding rank for each political position. The study tracks each record if an officer holds different positions or ranks in one year. In Vietnam's highly centralised political system, consisting of the government, the National Assembly, and the People's Council, there is a strict hierarchy of rankings. Specifically, high-level officials possess more power than a low-level ones. Therefore, such rankings make it feasible to calculate the strength of each channel through which a firm's political connections are established (Malesky & Taussig, 2009).

The components of PC[15] strength consist of the definitions of political connection given above. A connection score is assigned to the CEO, chairs, board members, directors, and supervisors of each sample firm, contingent upon whether that connection is with the government (administrative) or National Assembly/People's Council system. For connections with the government hierarchy, the study covers both the political rank and level of a given position. Thereafter, according to political administrative rankings in Vietnam, a score of 3 is assigned for a connection at the central level, of 2 for a connection at the provincial level, and of 1 for a connection at the local/city level, for each political type in the study's definition of political connection. For non-administrative types of political connections, namely senior managers of various industry associations, members of firm-level Communist Party Committees or lecturers or cadres in state-affiliated academic institutions/universities, a score of 1 is assigned. This is because these types of political connection perform the professional rather than administrative order roles.

A director with no political experience receives a score of zero. For instance, if CEOs are or used to be, a government official at national level or a member of the National Assembly, they will receive a score of 3 for their administrative level. For provincial and local levels, they will receive scores of 2 and 1 respectively. Scores of political connection across all positions in the firm, such as CEO, chairperson, board members, supervisors and other directors of the firm, are obtained. The next step is to aggregate the scores across all

[15] PC stands for Political Connection

positions for each dimension of their political background, leading to PC scores for the CEO, chairperson, board members, supervisors and all other directors. The final firm-level PC strength score is the sum of the four component scores: (1) the CEO PC score; (2) the chairperson PC score; (3) the board member PC score; and (4) the PC scores for other directors and supervisors. As a result, the firm-level original PC score is the sum of the scores for all the connection channels through which a firm's CEO, board chair, board members, supervisors and other directors are politically connected at the central, provincial, or local level or if they are, or used to be, a member of the Communist Party Committee at firm level, a senior manager of various association industries, or a lecturer or cadre of government-affiliated academic institutions/universities. Considering the skewness of the original PC scores, based on the method of Chen et al. (2017), this study uses a natural logarithm of the original PC strength: Ln(PC Strength)=Natural Logarithm(1+All Original PC Scores). 1 is added to ensure that Ln(PC Strength) remains zero when Original PC Strength=0.

TABLE 5- 1: THE EXAMPLES FOR THE PROCEDURE OF CONSTRUCTING THE STRENGTH OF POLITICAL CONNECTION:

Company Codes	**Year**	**Names of Board of Directors Members, Supervisory Board Members**	**Former or Current Positions in the Government**	**Political Connection Score**	**Natural Logarithm of Total Scores**
EVE	2010	Nguyen Van Dao (BM)	Official of the General Department of Geology and	3	

			Minerals of Vietnam		
Total				3	1.386294361
EVE	2011	Nguyen Van Dao (BM)	Official of the General Department of Geology and Minerals of Vietnam	3	
Total				3	1.386294361
EVE	2012	Nguyen Van Dao (BM)	Official of the General Department of Geology and Minerals of Vietnam	3	
EVE	2012	Ngo Phuong Tri (BM)	Official of the Ministry of Finance	3	
Total				6	1.945910149
EVE	2013	Nguyen Van Dao (BM)	Official of the General Department of Geology and	3	

			Minerals of Vietnam		
EVE	2013	Ngo Phuong Tri (BM)	Official of the Ministry of Finance	3	
Total				6	1.945910149
EVE	2014	Nguyen Van Dao (BM)	Official of the General Department of Geology and Minerals of Vietnam	3	
EVE	2014	Ngo Phuong Tri (BM)	Official of the Ministry of Finance	3	
Total				6	1.945910149
EVE	2015	Nguyen Van Dao (BM)	Official of the General Department of Geology and Minerals of Vietnam	3	
EVE	2015	Ngo Phuong Tri (BM)	Official of the Ministry of Finance	3	

Total				6	1.945910149
EVE	2015	Nguyen Van Dao (BM)	Official of the General Department of Geology and Minerals of Vietnam	3	
EVE	2015	Ngo Phuong Tri (BM)	Official of the Ministry of Finance	3	
Total				6	1.945910149
EVE	2016	Nguyen Van Dao (BM)	Official of the General Department of Geology and Minerals of Vietnam	3	
EVE	2016	Ngo Phuong Tri (BM)	Official of the Ministry of Finance	3	
Total				6	1.945910149
DHT	2012	Le Anh Trung (Vicechair)	Official of Ha Tay Province and Ha Noi Capital	2	1.098612289

DHT	2013	Le Anh Trung (Vicechair)	Official of Ha Tay Province and Ha Noi Capital	2	1.098612289
DHT	2014	Le Anh Trung (Vicechair)	Official of Ha Tay Province and Ha Noi Capital	2	1.098612289
DHT	2015	Le Anh Trung (Vicechair)	Official of Ha Tay Province and Ha Noi Capital	2	1.098612289
DHT	2016	Le Anh Trung (Vicechair)	Official of Ha Tay Province and Ha Noi Capital	2	1.098612289
DID	2009	Dinh Thi Hien (SB)	Official of Ba Ria Vung Tau Provincial Government	2	
DID	2009	Vu Trong Tuyen (SB)	Official of the Labour Department of Minh Hai Province	2	
Total				4	1.609437912
DID	2010	Vu Trong Tuyen (SB)	Official of the Labour	2	1.098612289

			Department of Minh Hai Province		
DID	2011	Vu Trong Tuyen (SB)	Official of the Labour Department of Minh Hai Province	2	1.098612289
DID	2012	Vu Trong Tuyen (SB)	Official of the Labour Department of Minh Hai Province	2	1.098612289
DID	2013	Vu Trong Tuyen (SB)	Official of the Labour Department of Minh Hai Province	2	1.098612289
DID	2014	Tran Hoang Tuan (Chair)	Official of Dong Nai Provincial Government	2	1.098612289
DID	2015	Tran Hoang Tuan (Chair)	Official of Dong Nai Provincial Government	2	1.098612289

DID	2016	Tran Hoang Tuan (Chair)	Official of Dong Nai Provincial Government	2	1.098612289
HHC	2007	Tran Hong Thanh (CEO, BM)	Secretary of the Communist Party Committee of Hai Ha	1	0.693147181
HHC	2008	Tran Hong Thanh (CEO, BM)	Secretary of the Communist Party Committee of Hai Ha	1	0.693147181
HHC	2009	Tran Hong Thanh (CEO, BM)	Secretary of the Communist Party Committee of Hai Ha	1	0.693147181
HHC	2010	Tran Hong Thanh (CEO, BM)	Secretary of the Communist Party Committee of Hai Ha	1	0.693147181
HHC	2011	Tran Hong Thanh (CEO, BM)	Secretary of the Communist Party Committee of Hai Ha	1	0.693147181

HHC	2012	Tran Hong Thanh (CEO, BM)	Secretary of the Communist Party Committee of Hai Ha	1	0.693147181
HHC	2013	Tran Hong Thanh (CEO, BM)	Secretary of the Communist Party Committee of Hai Ha	1	0.693147181
HHC	2014	Tran Hong Thanh (CEO, BM)	Secretary of the Communist Party Committee of Hai Ha	1	0.693147181
HHC	2015	Tran Hong Thanh (CEO, BM)	Secretary of the Communist Party Committee of Hai Ha	1	0.693147181
HHC	2016	Tran Hong Thanh (CEO, BM)	Secretary of the Communist Party Committee of Hai Ha	1	0.693147181

Source: The Author's calculations

On the other hand, political connection is also defined as the ratio of the number of politically connected directors on the board to the total number of directors (board size) (Sun et al., 2016). Compared to the binary measurement, political connection measured as a percentage gives an evaluation of the efficiency of the relative size of politically connected directors on the board (Wang, 2015). Through such analysis, the study aims to compare whether board structure between politically connected directors and the remaining directors may be an optimal choice, and to measure the relative degree of concentration of the political connection on the board. Therefore, another measurement of political connection is employed, in the form of the percentage of politically connected directors on the board, in the additional analysis.

Following previous studies, this study includes the governance- and firm- control variables. Potential ownership concentration effects were first controlled for. A variety of empirical studies have investigated the impact of ownership structure and concentration upon firm performance, as well as the connection between executives and stockholders. The empirical corporate governance literature has obtained inconclusive findings on the benefits and costs of ownership concentration structure. Some researchers have discovered a positive direct effect of ownership concentration upon corporate performance (Gorton & Schmid, 2000; Mitton, 2002), supported by the fact that the interests of owners and managers are aligned and aim to mitigate agency conflict (Jensen & Meckling, 1979). In contrast, when major shareholding lies in the hands of a small group of shareholders, they tend to impose on and control the management, which results in negative firm performance because the independent decision-making process is biased (Khan et al., 2013). This study uses top1 (the ownership percentage of the largest shareholder) and top2-5 (the ownership percentage of the secondth-to-fifth largest shareholder) as the representative variables for ownership concentration in Vietnam. The data for the largest shareholders was obtained from the information announcements on ownership structure in the annual reports of Vietnamese listed companies. Shareholder ownership is defined as concentrated if their shareholding is 5% or higher.

Second, the study controls for the board-level governance effect, namely CEO duality and board size. CEO duality exists if the same person holds both the CEO and board chairperson positions in a company (Rechner & Dalton, 1991). The impact of CEO duality on firm performance may be explained by two different theoretical perspectives. To be consistent with agency perspective, the roles of CEO duality and chairperson should be separate in order to allow for productive monitoring and delivery of service (Jensen, 1993). Based on Rhoades (2001), CEO duality reduces board independence and improves CEO entrenchment. The primary responsibility of the CEO is to put companies' policies into practice, whereas they focus on running the business as efficiently as possible. On the other hand, the chairperson is responsible for monitoring and assessing the activities of directors and being responsible for ensuring that the board runs effectively. However, according to the stewardship perspective, dual leadership such as CEO duality enables managers to act in the best interests of the owners by contributing substantially to increasing firm value. CEO duality was a binary variable equal to 1 if there was a combined role of CEO and chairperson on a board, and 0 otherwise.

The second board-level control variable is board size. This is calculated as the total number of directors on the board (Wang, 2015). Previous studies (Jensen, 1993; Yermack, 1996; Anderson & Reeb, 2004) have discovered a relationship between the size of a company's board and its firm performance. These can be divided into two strands of thought. In the first, it has been argued that smaller board size enhances the performance of many companies. Based on previous research (Lipton & Lorsch, 1992; Yermack 1996; Eisenberg et al., 1998), smaller board size allows for easier coordination and interaction between the board members and the CEO. This helps to improve board efficiency and performance. In addition, it helps to improve cohesiveness between the directors on the board, allowing for quicker decision-making processes among members as compared to companies with larger boards. Less time spent at board meetings could reduce the time cost per director, which will result in reducing total company costs and improving performance. On the other hand, evidence from Pfeffer (1972), Klein (1998) and Coles et al. (2008) shows a positive relationship between company performance and board size; the larger the board size, the better the performance of the company. In addition, companies with large boards are able to benefit from the wide-ranging advice from board members (Dalton, 2005). Based on Van Den Berghe & Levrau (2004), increasing the number of directors provides an increased pool of expertise. A large number of directors indicates that there will be diverse specialisation, which can improve the decision-making processes in a company. This diversity in specialisation could help companies to guarantee critical resources and also reduce environmental uncertainties (Goodstein et al., 1994).

This study also controlled for conventional firm-level characteristics, including Firm Size, measured by the natural logarithm of a firm's sales. Based on the past studies of Singh & Whittington (1975) and Serrasqueiro & Nunes (2008), larger firms have higher performance than smaller ones because they usually enjoy economies of scales and greater negotiation power over their clients and suppliers (Singh & Whittington, 1975; Serrasqueiro & Nunes, 2008). Larger firms aim to benefit from economies of scale through operating costs and the cost of innovation (Hardwick, 1997). Therefore, as the number of units produced increases, the price per unit will fall. These benefits aim to reduce the unit cost of production, which results in increased firm profitability. Shepherd (1989) also explains that company size determines bargaining power. Therefore, companies with superior bargaining power tend to be more profitable because they are able to influence their trading relationships through the amount of credit granted, the terms of payment, the means of delivery and the quality of the products. This in turn helps them to be more profitable. In contrast, according to Symeou (2010), small firms have certain characteristics that can outweigh the disadvantages related to their size. They are less subject to the agency problem (Pi et al., 1993; Goddard et al., 2005) and are characterised by more flexible non-hierarchical structures, which may be suitable organisational forms for modifying business environments (Yang & Chen, 2009). Because smaller firms are mostly managed and owned by a small group of related shareholders, the likelihood that the management team will pursue its own interests rather than those of its owners is greatly reduced. Such a relationship helps to reduce the agency cost of management monitoring and misuse of funds, which in turn improves firm performance.

Asset tangibility is measured by the ratio of fixed asset to total assets. Research by Harris & Robinson (2001) discovered a negative relationship between firms' profitability and their tangible assets. In contrast, Braun (2003) found solid evidence to show that companies with tangible assets acquired more finance from suppliers and banks at low rates of interest. Braun (2003) also argued that tangible assets are more easily transferred to the investors' control when the relationship between suppliers and banks breaks down. For most external financers, the best way to guarantee safe lending is through the provision of security in the form of tangible assets. Therefore, some firms utilise the tangible assets as collateral to guarantee external funds. Because of their ability to hold financing contracts together, external financers are able to offer reduced financing costs. This reduction in the cost of finance due to asset tangibility shows that such firms will make savings on their interest payments, which enhances firm performance. However, most external financers rarely grant finance to small-medium-sized enterprises due to their lack of tangible assets.

Financial leverage is calculated by the ratio of total liabilities to total assets. This significantly influences firm performance (Ruland and Zhou, 2005; Onaolapo and Kajola, 2010; Akinlo and Asaolu, 2012). According to previous studies, financial leverage influences the cost of capital, ultimately affecting firm performance and stock prices (Higgins, 1977; Miller, 1977; Myers and Majluf, 1984; Sheel, 1994). It has been found that the presence of debt in the capital structure generates pressure on managers to perform well (Akintoye, 2009; Weill, 2003). This debt pressure means that managers must work harder in order to be able to service the debt. Therefore, this duty to perform well will put major pressure on managers because the debt holders could force non-performing directors to liquidate the company. It has been argued that debt financing provides many benefits to managers if they perform well, because they tend to avoid the personal costs of failure. In contrast, it has also been argued that the presence of debt in a firm has a negative influence on firm performance. In the study of Titman and Wessles (1988), very wealthy firms had lower levels of leverage than less profitable ones as they first utilised their retained profit before seeking outside capital. Sheel (1994) also found a negative relationship between the debt-to-asset ratio and the non-debt tax shield, or/and between a firm's leverage behaviour and its past performance. The study of Dimitrov and Jain (2005) explored the negative association between financial leverage and profitability.

The ROE variable was chosen as a control variable. Return on Equity (ROE) is a measure of accounting-based financial performance calculated by dividing net income by shareholder equity. The relationship between accounting-based and market-based financial performance indicators has been examined by researchers, especially in terms of how closely they are associated (Chakravarthy, 1986; Combs et al., 2005; Gentry & Shen, 2010; Keats, 1988). In theoretical terms, researchers generally define accounting measures as reflections of past or short-term financial performance, and market measures as reflections of future or long-term financial performance (Hoskisson et al., 1994; Keats, 1988). There are currently mixed findings in the existing literature regarding the relationship between accounting-based and market-based measurements of financial performance. While some studies have discovered a positive relationship (Hoskisson et al., 1994; McGuire and Matta, 2003), others have indicated a negative relationship (Keats, 1988; Nelson, 2003).

Firm age is included as a control variable in the empirical models. The relationship between firm age and firm performance has been extensively covered in the literature on finance and related disciplines, namely economics and organisational studies. Theoretical and empirical studies appear to be equivocal in terms of the link between firm age and firm performance. One stream of research implies that older companies outperform younger ones because they are experienced in the industry. This phenomenon is known as "learning by doing" (Coad et al., 2013). However, another stream of research explains that older companies are not flexible in adopting new changes, so they underperform younger firms (Liu et al., 2015).

5.3.2. METHODOLOGY IN CHAPTER 5:

An issue encountered in the estimation of panel data is the presence of unobserved firm-specific effects. Excluding such effects could result in serious bias in the econometric estimates, especially when these effects are correlated with other covariates. Fixed-effects are often employed to address this concern. This chapter also considers pooled OLS regression, two-way random effects and two-way fixed effects estimations. Based on the results of the F-test between pooled OLS and fixed-effects estimations, the results of the

Hausman test between fixed effect and random effects estimations, and the results of the Breusch-Pagan Lagrange multiplier between random effect and pooled OLS estimations, two-way fixed effects controlling for both time-invariant individual company characteristics and time fixed effects was chosen as the main method of estimation in this chapter. The results of these tests are presented in Appendix. In addition, the competitive advantages caused by the existence of political connection and its influence on firm performance may be less affected by industry-level drivers (Hung et al., 2017). In line with the resource-based view in strategic management, Mauri & Michaels (1998) contend that industry-level drivers have marked effects on the core strategies (e.g., R&D and advertising investments), whereas firm-level drivers have strong effects on firm performance. This may be explained by the fact that the firms competing in the same industry tend to conduct homogenous competitive core strategies (e.g., investing in technology and marketing resources) (Mauri & Michaels, 1998). These are the easily implementable strategies, but cannot provide competitive advantage (Erickson & Jacobson, 1992). Moreover, sustainable competitive advantage can be only obtained by capitalising on and combining competitively unique resources that exist at lower levels of aggregation (Collis & Montgomery, 1995). Therefore, the analysis of competitive advantage within the resource-based view is applicable only at low levels of analysis, unobservable by competitors (Mauri and Michaels, 1998). In other words, the fine-tuned analysis of resource hierachies at lower levels of aggregation can enable managers to detect the true sources of competitive advantage (Mauri and Michaels, 1998). Conforming with this viewpoint, this study therefore adopts the firm-fixed effects estimation to analyse the possible impact of political connection upon firm performance. It is believed that the firm-level analysis may help managers to uncover the facets of political connection (Hung et al., 2017). Furthermore, the firm-level is a lower level of aggregation than the sectoral-level, thereby indicating that sectoral dummies will be omitted in the firm-fixed estimations because firm-fixed effects have already included sectoral dummies (Chen et al., 2017; Hardy, 1993). In order to increase the robustness of the findings, the sectoral dummies are yet incorporated into system Generalized Method of Moments (system GMMs) models to control for unobservables at sectoral-level because GMM approach can include the dummies at all given levels.

This study uses margins and contrast analysis to probe the nature of the interactions between two variables in the models. By definition, a margin is a post-estimation command; a command for use after a model has been fitted using an estimation command, namely regress or logistic, or by using almost any other estimation command. Margins estimate and report on margins of responses and margins of derivatives of responses, also known as marginal effects. A margin is a statistic on the basis of a fitted model, in which some of or all of the covariates are fixed. Marginal effects are changes in the response for change in a covariate, which can be construed as a derivative, elasticity, or semielasticity[16]. In other words, the margins command in Stata determines the predicted mean of the outcome when the predictor is given at one specific value (Mitchell, 2012). On the other hand, contrast analysis is used to test linear hypotheses and forms contrasts consisting of factor variables and their interactions, and contrast computations can be considered comparisons of estimated cell means arising from a model fit[17]. Contrast includes simple effects that can be used to test the overall effect of a factor variable, and applies contrast operators to factor variables to analyse the main effects or interactions (Mitchell, 2012).

For the interaction between SOE and polcon, the margin analysis after the main regression will exhibit the average value of Tobin's Q in the possible combinations of SOE and polcon[18]. The following analysis of contrast will demonstrate the effect of political connections on the performance of SOEs and non-SOEs separately. Therefore, regarding the effect of polcon on the performance of non-SOEs, Hypothesis 5.4 will be supported or rejected through the analysis of margin and contrast. The difference in the effects of polcon between SOEs and non-SOEs will roughly equal the interaction size of polcon and SOE (Mitchell, 2012).

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[16] The definition of margins analysis can be seen in Stata manuals 13, available at https://www.stata.com/manuals13/rmargins.pdf

[17] The definition of contrast analysis can be seen in Stata manuals 13, available at https://www.stata.com/manuals13/rcontrast.pdf

[18] The possible combinations include SOEs and polcon, non-SOEs and polcon, SOEs and no polcon, and finally non-SOEs and non-polcon

A common issue in the literature concerning the relationship between political connection and firm performance is the likely presence of endogeneity. It is believed that the literature on the value of political connection and the state ownership is likely to suffer from endogeneity issues (Shi et al., 2018), which could lead to biased conclusions. Critical analysis of the literature on political connection contends that strongly-performing companies may also have incentives to build strong relationships with the government because such a type of networking may ease their access to critical resources, allowing them to sustain their high growth rates or rescue them when they go into bankruptcy (Hung et al., 2017). In addition, the government, via the state-owned investment commission, may make considerable investments into well-performing firms as a source of stable dividends that contribute to the state budget, and also appoint the politically connected directors onto the board to act as a representative of the government ownership (Shleifer & Vishny, 1998; Tu et al., 2013). Regarding state ownership, previous studies conjecture that government ownership/control is greatly susceptible to the features of a firm, including firm performance. For instance, Megginson & Netter (2001) argue that government may first choose to privatise the best performing firms to ensure their privatisation scheme has good results. Similarly, Boubakri et al. (2005) posit that governments tend to control the largest and best performing firms in order to establish their reputation and sell them in tranches in the future. This may lead to correlation between this study's proxy for government ownership and the error terms, resulting in spurious inferences on the effect of government ownership on firm performance.

In relation to the issue of endogeneity, studies have employed different approaches to overcome this problem. One of the most common is the use of external instruments in the two-stage least squares regression (Wu et al., 2018; Xu et al., 2015); however, it is extremely difficult to find a suitable instrument. This study follows the suggestion of Boubakri et al. (2008) to use the firm's location[19] as an instrumental variable in the two-stage least square regression. However, the tests of the validity of this instrument fail to

[19] This variable equals to 1 if the firm is headquartered in the capital of Vietnam as Hanoi.

confirm it as a good choice. Therefore, future studies may be able to find a better instrumental variable. Another approach to resolving the issue of endogeneity is the use of external shock as a natural experiment to examine the value of politically connected directors, which is largely free from endogeneity concerns (Liu et al., 2016; Xu, 2018). In the context of Vietnam, however, looking for an exogenous event study between 2007 and 2016 may be a difficult task between 2007 and 2016. As a result, the GMM technique is adopted to deal with the endogeneity issue involved in the regressions. The rationale for its popularity is that the technique has the advantage of employing internal instruments to overcome the problem of the main variable of interest not being strictly exogenous. The consistency of the Arellano and Bond estimator lies in the assumption that errors are not serially correlated. As a result, it is important to test for the presence of serial correlation; Arellano and Bond's test suggests the first and second order serial correlation of the differenced residuals. According to Roodman (2009), while there should exist the first order serial correlation, the second order serial correlation does not occur. In line with Arellano & Bover (1995) and Blundell & Bond (1998), Sargan or Hansen tests are used to examine the issue of over-identifying restrictions, testing the overall validity of the instruments in the application of the GMM technique. In order to apply the technique, the study used the first lagged value of Tobin's Q as an explanatory variable in the model. Moreover, the option of collapse is employed in the GMM models to reduce the number of internal instruments (Roodman, 2009). This helps to guarantee that the number of internal instruments is less than the number of groups in the GMM model (Roodman, 2009).

5.3.3. ECONOMETRIC MODEL AND VARIABLES:

This sub-section presents the baseline empirical models, with the goal of determining the empirical outcomes that support or reject the suggested hypotheses. In order to test the previously formulated hypotheses, the models will be shown as follows:

$FP_{i,t} = \alpha_1 + \beta_1 * PC_{i,t} + \beta_2 * lnboardsize_{i,t} + \beta_3 * CEOduality_{i,t} + \beta_4 * Top1_{i,t} + \beta_5 * Top25_{i,t} + \beta_6 * lnfirmage_{i,t} + \beta_7 * Size_{i,t} + \beta_8 * leverage_{i,t} + \beta_9 * tangibility_{i,t} + \varepsilon_{i,t}$ (5.1)

$FP_{i,t} = \alpha_1 + \beta_1 * PC_{i,t} + \beta_2 * PC_{i,t} * SOE_{i,t} + \beta_3 * SOE_{i,t} + \beta_4 * lnboardsize_{i,t} + \beta_5 * CEOduality_{i,t} + \beta_6 * Top1_{i,t} + \beta_7 * Top25_{i,t} + \beta_8 * Size_{i,t} + \beta_9 * leverage_{i,t} + \beta_{10} * tangibility_{i,t}$ (Model 5.2)

In which, i=1,…., 172 companies, t=2007 to 2016, and β is the magnitude of influence of a variable in the model on firm performance.

Dependent variable:

$FP_{i,t}$ is the Tobin's Q of the firm i at time t in the regression model.

Main Independent Variables:

$PC_{i,t}$ is the dummy variable of the presence of political connection in the firm i at time t.

If the director, CEO, chairman or board or supervisory member who is, or used to be:

(1) an official of the government, military, court or procuracy, or a membership of national, provincial or local congresses (polcon1)

(2) a senior manager or membership of various industry associations (polcon2)

(3) a lecturer or official in many state-owned academic institutions/universities (polcon3)

(4) a member of the Communist Party Committee in the firm (polcon4)

its value equals 1 for the existence of political connection, and 0 otherwise.

The control variables in this study consist of the following firm characteristics:

$lnboardsize_{i,t}$ representing the natural logarithm of board size, as measured by the number of directors sitting on the board of firm i at time t.

$CEOduality_{i,t}$ is a dummy variable equal to one if the chairperson and CEO are the same person in firm i at time t.

$Size_{i,t}$ is the value of the logarithm of total sales in the firm i at time t.

$Top1_{i,t}$ represents the shareholdings of the largest shareholder in the firm i at time t.

$Top25_{i,t}$ shows the shareholdings of the secondth-to-fifth largest shareholders in the firm i at time t.

$Leverage_{i,t}$ is the ratio of the book value of liabilities, scaled by total assets.

$Tangibility_{i,t}$ is the book value of tangible fixed assets, scaled by total assets.

$\ln(Firm\ Age)_{i,t}$ represents the natural logarithm of the age of the firm, as measured by the age of firm i at time t.

5.4. PRE-REGRESSION RESULTS:

5.4.1. DESCRIPTIVE STATISTICS:

This sub-section summarises the descriptive statistics of the variables used in the chapter, showing the main features of the data, including mean, standard deviation, minimum and maximum values.

TABLE 5- 2: DESCRIPTIVE STATISTICS OF THE MODEL VARIABLES

Variable	Observation	Mean	Standard Deviation	Min	Max
Polcon	1302	0.694	0.460	0	1
Polcon1	1302	0.630	0.482	0	1
Polcon2	1302	0.033	0.180	0	1
Polcon3	1302	0.078	0.268	0	1
Polcon4	1302	0.179	0.384	0	1
PCstrength	1302	1.080	0.831	0	2.397
Ratio of Polcon	1302	0.1003	0.157	0	0.5
Tobin's Q	1300	1.028	0.437	0.378	2.110

CEO Duality	1300	0.383	0.486	0	1
Ln(boardsize)	1301	1.445	0.292	1.098	2.079
SOE	1301	0.563	0.496	0	1
Top1	1301	35.067	17.304	10	68.64
Top25	1301	14.332	12.842	0	39.15
ROE	1301	15.347	11.239	-0.57	38.79
Log(Firm Sales)	1302	11.783	0.547	10.779	12.783
Tangibility	1302	0.282	0.166	0.058	0.657
Leverage	1302	0.464	0.196	0.124	0.779
Ln(Firmage)	1302	2.99	0.634	1.791	3.970

Table 5-2 shows the descriptive statistics for the dataset. For the variable of political connection, specifically, the mean value is 0.694, with its maximum and minimum values ranging from 0 to 1. This result reveals that political connection is widespread in the sample of listed manufacturing firms, which could be because the state mainly assigns bureaucrats to the management and supervision of the listed state-controlled companies to directly run them, or entrepreneurs with work experience in government-affiliated agencies, universities or institutions. For the polcon variable ratio, its value ranges from 0 to 0.5, with a mean value of 0.1003, which indicates that the percentage of politically connected directors on boards is not as high as in previous studies (Sun et al., 2016; L. Wang, 2015). SOE has a mean value of 0.563, and maximum and minimum values ranging from 0 to 1. This shows that a high number of manufacturing firms in the sample are state-controlled, which proves that the process of equitisation has been slow during the 20 years since the economic reform of Doi Moi (Kim et al., 2010; Tran et al., 2008).

For the dependent variable of Tobin's Q, its value ranges from 0.378 to 2.110, and its mean value is 1.028 (Table 5-1). This means that the market value of some Vietnamese listed manufacturing companies is lower than the value of their total assets, but that there are some companies whose market value is greater than the value of total assets. For the corporate governance variables, CEO duality has a mean value of 0.383, which indicates that the leadership structure of separation between CEO and chairman is more widely accepted in the selected sample of companies. Furthermore, the natural logarithm of board size has a mean value of 1.445, ranging from 1.098 to 2.079 (see Table 5-1). This figure shows that the listed companies in the sample might limit the number of directors on their board. Small board size might be conducive to easier decision-making processes and greater managerial control (Jensen et al., 1993).

Regarding ownership concentration, the top1 (the largest shareholder) and top25 (the secondth-to-fifth largest shareholders) variables have mean values of 35.067 and 14.332 (see Table 5-2), with the top1 variable varying between 10 and 68.64, and the top2-5 variable ranging from 0 to 39.15 (Table 5-1). These figures for the variable of ownership concentration demonstrate that the ownership concentration in Vietnamese listed firms is diverse, which creates more rooms for investors who wish to invest in the listed companies. The average value of firm sales as a proxy for company size calculated by the logarithm of firm sales is 11.783, with minimum and maximum values of 10.779 and 12.783. These figures underline the diversity of sales volumes across the selected sample of companies in the manufacturing sector.

Regarding asset tangibility, the companies have a mean tangibility ratio of 0.282, with its value ranging from 0.058 to 0.657 (Table 5-1). This result shows that the amount of fixed assets over total assets is small in many of the listed manufacturing firms. Therefore, companies that own a small number of fixed assets could face the problems in obtaining bank loans[20]. Moreover, this will also put more pressure on them to establish relationships with government officials to help with developmental resources acquisitions such as bank loans (USAID et al., 2016). It was also found that most listed companies have an average financial leverage of 0.464, with a minimum leverage of 0.124 and a maximum of 0.779 (Table 5-1). The average value of 0.464 shows that the majority of the companies in the sample are using more equity capital and fewer liabilities to finance their businesses. Such evidence is confirmed as the sampled firms are listed companies which have access to

[20] In Vietnam, collateral such as fixed assets plays an important role in the lending decisions of the commercial banks (Le, 2012)

unlimited equity capital. The variable of return on equity has a mean value of 15.347, and ranging between -0.57 and 38.79. This means that the majority of listed manufacturing companies on the Vietnamese stock exchange reported a profit, while some incurred significant losses over the research period.

5.4.2. CORRELATION MATRIX:

TABLE 5- 3: CORRELATION COEFFICIENT

Variable	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.
1. Tobin's Q	1.00												
2. Polcon	0.0045	1.00											
3. Polcon1	-0.0054	0.866***	1										
4. Polcon2	0.010	0.124***	0.037	1									
5. Polcon3	-0.064**	0.193***	0.081**	0.119***	1								
6. Polcon4	0.113***	0.310***	0.171***	0.023	-0.0099	1							
7. PCStrength	0.064**	0.862***	0.823***	0.102***	0.174***	0.371***	1						
8.CEO duality	0.042	0.080***	0.046*	0.053***	0.084***	0.058**	0.059**	1					
9. Ln(firm age)									1				
10. top1	0.104***	-0.0096	-0.0036	-0.071**	0.0079	0.121***	0.016	-0.232***	0.078***	1			
11. top25	0.060**	0.0021	0.0018	0.021	-0.020	-0.101***	0.040	0.071*	-0.038	-0.344***	1		
12. firm size	0.285***	0.048*	0.016	0.106***	-0.017	0.140***	0.072***	-0.014	-0.055**	0.270***	0.0033	1	
13.ln(board size)	0.165***	0.160***	0.146***	0.088***	0.050*	0.220***	0.223***	0.098***	-0.087***	-0.0057	0.065**	0.0033	1
14. Leverage	-0.079**	0.068**	0.059**	0.101***	-0.019	0.073***	0.012	-0.0003	-0.084***	0.129***	-0.063**	0.337***	0.161***
15. Tangibility	-0.067**	-0.021	0.037	-0.054**	-0.027	0.021	-0.0079	-0.095***	-0.056**	0.039	-0.045	-0.040	0.038
16. Return on Equity	0.486***	0.082***	0.045*	-0.045*	-0.042	0.089***	0.122***	0.045	0.135***	0.168***	0.0009	0.179***	0.073***
17. SOE	0.124***	0.115***	0.110***	-0.023	-0.048*	0.261***	0.146***	-0.069**	0.133*	0.350***	-0.198***	-0.104***	-0.104***
18. Ratio	0.019	0.422***	0.345***	.090***	0.021	0.373***	0.541***	0.027		0.080***	-0.009	-0.02	0.047*

Variables	14.	15.	16.	17.	18.
14. Leverage	1				
15. Tangibility	0.0013	1			
16. Return on equity	-0.118	-0.087***	1		
17. SOE	-0.034	0.043	0.226***	1	
18. Ratio	-0.085*	-0.020	0.058**	0.161***	1

From Table 5-3, it can be seen that polcon1 and the strength of political connection are fairly highly correlated with all types of political connection. This is because these two variables are the components of the main variable of political connection and have been developed from the all types of political connection respectively. In summary, no multi-collinearity problems were found among any of the variables.

The results in Table 5-3 show a negative correlation between the political connection and Tobin's Q. This implies that firms' market profitability is negatively influenced by the existence of political connection; however, this correlation is not statistically significant. In contrast, there is a significantly positive correlation between political connection type IV, PCstrength and Tobin's Q, but a significantly negative correlation between the political connection type III, the strength of political connection and Tobin's Q.

For the corporate governance variables, the study found a significantly positive correlation between the natural logarithm of board size and Tobin's Q (0.165, as shown in Table 5-2). This is consistent with the Dalton et al. (2005), who explain that companies are able to improve their profitability and market performance thanks to the large amount of valuable advice from the large pool of expertise on the board. In addition, there is a significantly positive correlation between ownership concentration (top1, top25 and Tobin's Q) (0.104 and 0.060 respectively). This shows that ownership concentration has a positive effect on market performance measured by Tobin's Q. For the variable of CEO duality, the presence of the dual role of CEO and chairman has a positive association with firm profitability measured by Tobin's Q (0.042), but the association is statistically insignificant.

Regarding other firm characteristics, firm size, as measured by the logarithm of the VND value of total firm sales, is significantly positively associated with Tobin's Q (0.285). This demonstrates that firms with more resources, as measured by the higher value of total firm sales, are likely to create more profit and have higher market performance. For return on equity, the higher the return on equityh, the higher Tobin's Q, which explains that a higher value of return on equity is likely to be a good signal for firms' market performance evaluation (0.486). In terms of tangibility, firms which invest more into the fixed assets have to accept the need to sacrifice some profits (0.067). Furthermore, the firms cannot utilise the high ratio of leverage to boost firm performance by the virtue of a significantly negative association between the leverage ratio and Tobin's Q (-0.079).

5.5. RESULTS AND DISCUSSION:

TABLE 5-4: MAIN REGRESSION RESULTS:

	Model 5-1	**Model 5-2**
VARIABLE	**Tobin's Q**	**Tobin's Q**
Polcon	**-0.107****	**-0.006**
	(0.047)	(0.050)
SOE		**0.075**
		(0.078)
Polcon*SOE		**-0.159****
		(0.071)
CEOduality	**-0.058**	**-0.057**
	(0.035)	(0.035)
Firmsize	**0.238****	**0.232****
	(0.087)	(0.087)
Top1	**-0.0005**	**-0.0005**
	(0.0011)	(0.011)
Top25	**0.0016**	**0.0017**
	(0.0013)	(0.0013)
Ln(boardsize)	**0.134*****	**0.130****
	(0.041)	(0.041)
Leverage	**-0.0003**	**0.009**
	(0.104)	(0.102)
Tangibility	**-0.0164**	**-0.017**
	(0.109)	(0.111)
ROE	**0.0088*****	**0.0088*****
	(0.0012)	(0.0012)

Ln(firm age)	**-0.226***	**-0.217***
	(0.121)	(0.122)
Constant	**-0.741**	**-0.740**
	(1.046)	(1.062)
Firm-fixed	Yes	Yes
Year-fixed	Yes	Yes
Observations	1,296	1,296
Number of firm	172	172
R-squared	**0.404**	**0.409**

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

The table 5-4 displays the results from the empirical model. As can be seen in Table 5-4, the empirical results from Model 5-1 show that the coefficient of political connection is negative and statistically significant at the 5 percent level, which indicates that companies with political connections have a lower Tobin's Q than those without such connections. Specifically, politically connected companies yield on average[21] a 10.14% lower Tobin's Q than non-connected ones. Therefore, Hypothesis 5.2 is supported and Hypothesis 5.1 is rejected. This result is consistent with the study of Saeed et al. (2017), which showed that politically connected directors and supervisory board members exacerbates agency problems by forcing management teams to engage in self-interested actions which protect their individual rent-seeking interests, hence weakening firm performance.

This empirical outcome is also in line with the viewpoint of Shi et al. (2018), in that politically connected directors do not play a specific role of resource provision in firms to promote their performance. Specifically, the empirical findings of the negative effect on performance of politically connected directors and supervisory board members reveal that their personal wealth is not strongly tied to the company's performance, and therefore they

[21] The dependent variable is Tobin's Q, which is a percentage. Therefore, the dummy variable is interpreted as exp(dummy coefficient)-1. In this case, political connection results in a 9.606% decline in firm performance (this is the base), with other variables constant.

may not have a strong incentive to bring many resources to the firm. In addition, in the context of Vietnam, the cost of political resources provision is likely to increase over time and thus reduce politically connected directors' willingness to provide such resources. Vietnam has been conducting an anti-corruption wave in recent years after the scandals[22] involving the arrest of corrupt politically connected directors in state-owned economic groups, which have been well-publicised since 2010 (OECD, 2013). This anti-corruption wave is likely to have influenced politicians' incentives, as well as their capacities of bringing resources to the firm they serve. Politicians may hesitate to provide favours to business entities to which they are related (Vu et al., 2015). This all implies that the cost of resources provision for firms is likely to be greater than the benefits obtained.

Furthermore, the empirical findings from this study also agree with the theoretical grabbing-hand viewpoint of Shleifer & Vishny (1994) and the empirical viewpoints of Fan et al. (2007), who demonstrate that companies with a board structure populated by current or former government bureaucrats display low degrees of professionalism, as fewer directors have relevant professional backgrounds. In particular, politically connected board directors in Vietnamese manufacturing listed companies are often less skilled in their managerial roles, which in turn impairs firm performance and causes agency problems in the firm (Malesky & Taussig, 2009; OECD, 2013).

However, these above findings contradict those of other studies such as Li et al. (2008), Shin et al. (2017) and Hung et al. (2017), who show a specific resource-providing role of politically connected board directors, which in turn promotes firm performance. Their findings reveal that the negative role of political ties puts firms at the risk of firm failure, or market investors expect the resignation of politically connected board directors and supervisory board members in the sample of Vietnamese listed manufacturing companies.

On the other hand, the results from model 5-2 presented in Table 5-4 suggest that SOEs that are politically connected underperform their counterparts in the full sample of listed

[22] In reality, the anti-corruption campaign was held at the end of 2016 and beginning of 2017. Previously, only ambiguous or weak anti-corruption strategy had been conducted.

manufacturing companies in Vietnam. This implies that having politically connected boards of directors or supervisory members is detrimental to the performance of state-controlled companies. The statistically significant coefficient estimate of -0.159 indicates that politically connected SOEs yields, on average, a 14.7% lower Tobin's Q than their unconnected counterparts, thus confirming Hypothesis 5.3. This result is consistent with the findings of previous studies (Wang, 2015; Wu et al., 2012).

TABLE 5-5: THE ANALYSIS OF MARGINS IN MODEL 5-2

Polcon*SOE	Margins
0 0	**1.057*** (0.043)
0 1	**1.133*** (0.055)
1 0	**1.051*** (0.031)
1 1	**0.967*** (0.023)

Delta-method standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

The values shown in the margins column show the average Tobin's Q:

0: Non-existence of political connection and state-controlled type of ownership

1: Existence of political connection and state-controlled type of ownership

TABLE 5-6: THE ANALYSIS OF CONTRAST IN MODEL 5-2

The Effect of Political Connection	Contrast		
	SOEs (1)	**Non-SOEs (2)**	**Difference (1) – (2)**
Polcon	**-0.166****	**-0.0060**	**-0.160****
	(0.063)	(0.050)	(0.071)

Standard errors in parentheses

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

In the margin analysis shown in Table 5-5, the values shown in the margins column display the average Tobin's Q associated with the four possible value combinations of political connection and SOE. From Table 5-5, it can be seen that the average Tobin's Q for SOEs and polcon is 0.967. In addition, the average for SOE and non-polcon is 1.133. The effect of polcon among SOEs is -0.166 (0.967-1.133). By contrast, for non-SOEs, the effect of polcon is -0.006 (1.051-1.057). The contrast analysis in Table 5-6 shows the simple effect of polcon separately for SOEs and non-SOEs. The first test indicates that the effect of polcon is statistically significant for SOEs, while for non-SOEs, the political connection effect is not statistically significant. Therefore, the margins and contrast analyses re-confirm Hypothesis 5.3, but Hypothesis 5.4 is not confirmed because the impact of political connection on non-SOEs appears to be equivocal. This finding is different from those of studies of other emerging countries (Wu et al., 2012; Wang, 2015).

Those findings of this study concerning the distinct economic outcomes caused by the presence of politically connected members of boards of directors or supervisory boards in listed privately controlled and state-controlled companies may be related to their different motivations for firms to have political connections. More interestingly, according to Wang (2015), in listed SOEs the appointment of politically connected board of directors or supervisory board members may intensify the conflict of interests between the government as controlling shareholder and other small stock market investors. In fact, in addition to economic considerations, as the controlling shareholder the government may follow its political and social agendas, and activities which are not consistent with the interests of other minority shareholders. Consequently, the findings from this study suggest that politically connected board of directors or supervisory board members may be heavily influenced by the government decisions and therefore distort the purposes of maximising the value of their listed manufacturing companies in Vietnam. Therefore, this study concludes that, in line with the findings of previous studies, such as those of Wu et al. (2012) and Wang (2015), the appointment of politically connected board of directors or supervisory board members may result in agency problems in relation to the corporate governance of the companies in question. This proves the grabbing-hand facet of political connection in the Vietnamese state-controlled manufacturing companies (Wang, 2015; Cheung et al., 2009; Chen et al., 2017). Such findings should alert SOEs seeking political connections about the potential of adverse economic consequences.

Unlike the majority of the research that considers the political connections as valuable resources for firms, this study demonstrates that the presence of politically connected board of directors or supervisory board members does not help to facilitate the operational performance of private firms in Vietnam, especially listed privately-controlled companies. This may be in contrast to the helping-hand and resource-dependent perspectives of earlier studies and the viewpoint of Cao et al. (2016), who indicate that political connection may be seen as political bridging social capital in emerging countries intended to remove uncertainty in the business environment and consequently boost the performance of listed entrepreneurial companies in emerging countries. Therefore, in contrast to listed state-controlled enterprises, the role of political connection in privately-controlled listed enterprises emerges as equivocal.

Turning to control variables, a strongly significant positive relationship was discovered between company size and Tobin’s Q. This empirical finding agrees with the proposal by Cabral & Mata (2003) that larger companies have higher performance than smaller ones due to their easy access to developmental resources, such as financing from financial institutions. Specifically, larger companies may own the assets required for collateral in order to guarantee the supply of the essential credit to make profitable investments. This empirical finding also means that larger companies likely have the advantages of attracting considerable investments from investors on the market.

For the variable of the number of directors on the board, Model 5-1 shows a significantly positive relationship between the natural logarithm of the number of board directors and Tobin's Q (b=0.132). Therefore, this empirical result is in line with the resource-based viewpoint, as companies with a larger board size are able to benefit from the wide range of advice from board members (Dalton & Dalton, 2005). Van Den Berghe & Levrau (2004) explain that a larger board size can provide firms with a pool of expertise and a diversity of specialisation. Return on equity has a significantly positive effect on the market-based performance of a company, thereby indicating that it can be a predicted to be an indicator of a company's good market-performance. The study complements the mixed findings of Gentry & Shen (2010) concerning the relationship between accounting-based performance measurements and market-based performance measurements. These authors encourage the future studies on this relationship in emerging countries.

In terms of assets tangibility, the study found an insignificant relationship between asset tangibility and Tobin's Q. This is in contrast with previous studies on the significant relationship between the assets tangibility and companies' market-based performance. The finding indicates that companies with a high ratio of fixed-asset to total asset show no difference in market-based performance, compared to those with a low ratio. On the other hand, no significant relationship is found between financial leverage and Tobin's Q in Model 5-1. Therefore, this outcome on financial leverage is also not consistent with previous studies on the significance of the relationship between financial leverage and the market-based performance of the firm. It is concluded that high leverage does not help firms to improve their performance.

Regarding the variable of CEO duality and ownership concentration, CEO duality seems to have ambiguous effects on the market-based performance of firms. The evidence shows that neither the positive value impact of CEO duality based on stewardship theory, nor the negative value impact of CEO duality based on the agency theory, are not clear-cut in the sample of manufacturing listed companies in Vietnam. In terms of the variable of ownership concentration, the variable top1, which portrays the shareholdings of the largest shareholder, and the variable top25, which represents the shareholdings of the secondth-to-fifth largest shareholders, do not have any particular effects upon market-based company performance. Therefore, concentrated ownership may not cause any type II agency problem in the form of principal – principal conflict in the chosen sample of manufacturing companies. Regarding the natural logarithm of firm age, the study shows a decline in firm performance during the maturity period of the firm. Accordingly, such an empirical result coincides with the notion that the old firms seem to adapt to innovative and dynamic approaches more slowly than younger ones, which may delay their attempts to advance their performance (Barron et al., 1994; X. Liu et al., 2015). This is in line with the milk hypothesis of Coad et al. (2013), in that compared to younger firms, older ones have lower expected sales, profits and productivity growth rates, lower profit levels, and are less able to convert employment growth into sales, profits and productivity growth.

5.6. ROBUSTNESS CHECKS:

In this section, the robustness of the baseline results is evaluated by carrying out the four following exercises. First, the baseline analyses were re-run in the two-step dynamic GMM models to control for endogeneity issues. Secondly, based on Shi et al. (2018) and Wong et al., (2018), there are the different roles played by the various types of political connection, which sets the stage for examining the performance effects of the different types of political connection. Third, the study also follows the suggestion of Chen *et al.* (2017) by investigating how the strength of political connections influences the performance of the listed companies in the sample. Finally, a different measurement of political connection is adopted, namely the percentage of politically connected directors on the board, in order to capture the concentration of political connection.

5.6.1. ENDOGENEITY TESTING:

The estimated two-step GMM dynamic model with the first lagged Tobin's Q as an explanatory variable is as follows:

$FP_{i,t} = \alpha_1 + \beta_1 * FP_{i,t-1} + \beta_2 * PC_{i,t} + \beta_2 * lnboardsize_{i,t} + \beta_3 * CEOduality_{i,t} + \beta_4 * Top1_{i,t} + \beta_5 * Top25_{i,t} + \beta_6 * lnfirmage_{i,t} + \beta_7 * Size_{i,t} + \beta_8 * leverage_{i,t} + \beta_9 * tangibility_{i,t} + \mu_{i,t} + \gamma_{i,t} + \epsilon_{i,t}$ (5.2)

$FP_{i,t} = \alpha_1 + \beta_1 * FP_{i,t-1} + \beta_2 * PC_{i,t} * SOE_{i,t} + \beta_3 * PC_{i,t} + \beta_4 * SOE_{i,t} + \beta_5 * lnboardsize_{i,t} + \beta_6 * CEOduality_{i,t} + \beta_7 * Top1_{i,t} + \beta_8 * Top25_{i,t} + \beta_9 * lnfirmage_{i,t} + \beta_{10} * Size_{i,t} + \beta_{11} * leverage_{i,t} + \beta_{12} * tangibility_{i,t} + \mu_{i,t} + \gamma_{i,t} + \epsilon_{i,t}$ (5.3)

where $FP_{i,t-1}$ is the first lag of Tobin's Q, while all the GMM models also include firm, sectoral and year dummies to control for unobservables at firm-, sectoral-, and year- levels respectively.

The results for the dynamic panel GMM two-step system technique with regard to the relationship between political connection and firm performance are shown in Table 5-7.

TABLE 5-7: THE TWO-STEP SYSTEM GMM RESULTS IN THE PRESENCE OF CONTROL VARIABLES

	Model 5-3	**Model 5-4**
VARIABLES	**Tobin's Q**	**Tobin's Q**
L.Tobin's Q	**0.839*** **	**0.735*** **
	(0.063)	(0.082)
Polcon	**-0.091***	**0.027**
	(0.047)	(0.041)
SOE		**0.111**
		(0.074)

Polcon*SOE		**-0.187****
		(0.072)
CEO Duality	**-0.01**	**0.0048**
	(0.016)	(0.019)
Lnboardsize	**0.019**	**0.210**
	(0.052)	(0.043)
Top1	**-0.0005**	**-0.00004**
	(0.0006)	(0.0007)
Top25	**0.0007**	**0.0001**
	(0.0007)	(0.0007)
Tangibility	**0.176**	**0.277**
	(0.148)	(0.195)
Leverage	**-0.144**	**-0.085**
	(0.140)	(0.140)
ROE	**0.0065*****	**0.0069*****
	(0.0014)	(0.0013)
Firm size	**0.020**	**0.052**
	(0.054)	(0.054)
Ln(firm age)	**0.0063**	**0.018**
	(0.014)	(0.016)
Constant	**-0.859**	**-0.400**
	(0.565)	(0.549)
Firm-fixed	Yes	Yes
Sectoral-fixed	Yes	Yes
Year-fixed	Yes	Yes
Observations	1127	1127
Number of groups (firm)	172	172
Number of Instruments	99	102
AR(1) test (p-value)	0.000	0.000
AR(2) test (p-value)	0.319	0.288

Hansen test (p-value)	0.483	0.266

Robust standard errors in parenthesis. Windmeijer's finite-sample correction is applied to two-step estimations

*** p<0.01, ** p<0.05, * p<0.1

These results also include the Arellano-Bond's tests for autocorrelation, the Hansen J-test of over-identifying restrictions and the number of instruments used in the model. As can be seen from Table 5-7, the p-values of the J-Hansen test indicate that the GMM model is not likely to suffer from the issue of over-identifying restrictions, so the validity of the selected instrument is confirmed. Moreover, Table 5-7 also shows the presence of first-order autocorrelation (the significant value of the AR(1) test) but the absence of second-order autocorrelation (the insignificant value of the AR(2) test). Arellano & Bond (1991) show that only the presence of second-order autocorrelation makes the GMM estimates inconsistent. Therefore, both Models 5-3 and 5-4 become feasible with the values of ARtest (1) and ARtest (2).

Another feature of the GMM technique is the number of instruments used in the model. Too many instruments can bias the value of the J-Hansen test (Roodman, 2009). However, a rule of thumb suggested by Roodman (2009) is that the number of instruments should not exceed the number of groups in the model. As seen in Table 5-7, the number of instruments is less than the number of groups in both Models 5-2 and 5-3, which satisfies the suggestions of Roodman (2009) for the GMM models.

Considering the variables of interest, Model 5-3 shows the statistically significant negative coefficient of political connection, which explains the grabbing-hand facet of political connection. This result closely aligns with that of the firm fixed-effect baseline models, implying that the main results are not purely an object of endogeneity biases. Likewise, the joint effect of political connection and SOE on firm performance remains negative in Model 5-4, which is in line with that of the firm fixed-effects model. Regarding control variables, their coefficients obtain different values compared to the results from the firm fixed-effects estimation. While the coefficients of return on equity remain positive, the impact of all other control variables is statistically insignificant. The lagged dependent variable is highly significant and positive in the two-step GMM model 5-2, indicating high persistence of past firm performance improvements and learning effects.

5.6.2. THE REGRESSION RESULTS FROM THE DIFFERENT TYPES AND STRENGTH OF POLITICAL CONNECTION:

TABLE 5-8: THE EFFECTS OF DIFFERENT TYPES, STRENGTH AND RATIO OF POLITICAL CONNECTION ON FIRM PERFORMANCE:

	Model 5-5	Model 5-6	Model 5-7	Model 5-8	Model 5-9	Model 5-10
VARIABLES	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**
Polcon1	**-0.104*** **					
	(0.037)					
Polcon2		**0.0082**				
		(0.115)				
Polcon3			**0.056**			
			(0.051)			
Polcon4				**-0.023**		
				(.058)		
PCstrength					**-0.058** **	
					(0.028)	
Ratio of Polcon						**-0.132**
						(0.144)
CEOduality	**-0.058**	**-0.056**	**-0.055**	**-0.055**	**-0.060***	**-0.057**
	(0.035)	(0.035)	(0.036)	(0.036)	(0.035)	(0.035)
Firmsize	**0.236*** **	**0.229*** **	**0.239*** **	**0.230*** **	**0.234** **	**0.231**
	(0.086)	(0.086)	(0.087)	(0.086)	(0.086)	(0.087)
Top1	**-0.0005**	**-0.0005**	**-0.00057**	**-0.00053**	**-0.0006**	**-0.0005**
	(0.011)	(0.0011)	(0.0011)	(0.0011)	(0.0011)	(0.0011)
Top25	**0.0015**	**0.0016**	**0.0015**	**0.0016**	**0.0019**	**0.0017**
	(0.0013)	(0.0014)	(0.0014)	(0.0014)	(0.0014)	(0.0014)

Ln(boardsize)	**0.139*** **	**0.126*** **	**0.124*** **	**0.125*** **	**0.138*** **	**0.120*** **
	(0.041)	(0.043)	(0.043)	(0.043)	(0.040)	(0.043)
Leverage	**0.0015**	**-0.0072**	**-0.0094**	**-0.0023**	**0.013**	**-0.0015**
	(0.104)	(0.107)	(0.107)	(0.109)	(0.106)	(0.107)
Tangibility	**-0.020**	**-0.041**	**-0.040**	**-0.041**	**-0.033**	**-0.040**
	(0.109)	(0.109)	(0.109)	(0.108)	(0.108)	(0.109)
ROE	**0.0087*** **	**0.0087*** **	**0.0087*** **	**0.0087*** **	**0.0088*** **	**0.0088*** **
	(0.0012)	(0.0012)	(0.0012)	(0.0012)	(0.0012)	(0.0012)
Ln(firm age)	**-0.229***	**-0.205***	**-0.212***	**-0.207***	**-0.216***	**-0.205***
	(0.121)	(0.123)	(0.123)	(0.123)	(0.121)	(0.122)
Constant	**-0.728**	**-0.752**	**-0.842**	**-0.749**	**-0.740**	**-0.751**
	(1.047)	(1.064)	(1.063)	(1.063)	(1.049)	(1.064)
Year-Fixed	Yes	Yes	Yes	Yes	Yes	Yes
Firm-Fixed	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,296	1,296	1,296	1,296	1,296	1,296
Number of firm	172	172	172	172	172	172
Within R-squared	**0.405**	**0.398**	**0.395**	**0.398**	**0.402**	**0.399**

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Among the distinct types of political connections, the presence of former or current of government, procuracy, court or military officials, or members of the National Congress or People's Council, constitutes the largest percentage of all types of political connection. For that reason, further analysis first focuses on testing the performance effect of the four types of political connections separately. Compared to other types of political connections, that proxied by the presence of officials or members listed above is likely to hamper firm performance. In comparison, the coefficient of the presence on the board of politically connected board of directors or supervisory board members who are or used to be members of the Communist Party Committee is insignificantly higher than zero, although with a positive sign (b=-0.023). Similarly, the coefficient of politically connected board of directors or supervisory board members who are, or used to be, managers or members of various industry associations is positive, but statistically insignificant (b=0.019). Although the coefficient of the presence of politically connected members of boards of directors or supervisory board who are or used to be lecturers or cadres in state-affiliated academic institutions/universities is negative, the result is statistically insignificant (b=0.056). This demonstrates that the presence of current or former government, military, procuracy or court officials or the members of the National Council or People's Council, is likely to be a cause of weak corporate governance in the sample of manufacturing listed companies, leading agency problems at the expense of firm performance and the interests of minority shareholders (OECD, 2013). Among alternative explanations of the "grabbing-hand" viewpoint, politically connected members of boards of directors or supervisory boards may pursue individually rent-seeking or political goals, which is not in line with the goals of value maximisation on the market (Kim et al. 2010). In contrast to the first type of political connection, the role of Communist-Party membership, managers or memberships of various industry associations, and lecturers or officials in state-affiliated academic institutions/universities, seems to have an equivocal influence on company performance. However, the results for the performance effect of Communist-Party committee members on the board are not consistent with the concluded findings of previous studies, such as those of Li et al. (2017); Malesky & Taussig (2009) and Li et al. (2008). This suggests that the presence of Communist-Party committee on the boards often tends to spreads the political ideology rather than plays a role in the corporate and economic governance of firms (Vu et al., 2015). The results related to managers or members of various industry associations and lecturers or officials in state-affiliated academic institutions/universities are consistent with the findings of Shi et al. (2018), who explained that the presence of politically connected independent directors who are the current or former members of Chinese industry associations or of lecturers and cadres of state-affiliated academic universities, does not incrementally either improve or hamper company performance. Overall, the evidence shown in Table 5-7 based on Tobin's Q concludes that investors expect the future departure of politically connected members of boards of directors or supervisory boards who are or used to be government, military, court, procuracy officials, or members of the National Congress or People's Council. In contrast, investors are not concerned about the potential resignation of politically connected board of directors or supervisory board members who are or used to be Communist-Party membership, managers or members of various industry associations, or lecturers or cadres in many state-affiliated academic institutions/universities.

This study also aims to investigate whether multiple political connections with different political administrative rankings are in fact harmful to firm performance. In particular, Table 5-8 reveals that the strength of political connection has a significantly negative association upon firm performance (b=-0.058). The empirical findings suggest that firms with multiple politically connected directors with various political administrative rankings are likely to underperform their counterparts which are less politically connected or unconnected. This finding about the performance effect of the strength of political connections is similar to the findings of the study of Chen et al. (2017) in China, which indicated that a great number of interactions with the government officials tends to hinder rather than help firms. However, unlike the study of Chen et al. (2017), this study constructs the strength of political connection by including additional components, namely the officials of military, court and procuracy; Communist-Party members, managers or members of various industry associations; lecturers or officials in state-affiliated academic universities/institutions. The findings of the study also corroborate those of Malesky & Taussig (2009), that companies characterised by multiple political connections are likely to underperform their unconnected counterparts. However, the study of Malesky & Taussig (2009) employed the headcount method to calculate the strength of political connections, which is a different approach to this study. As a result, this study is among the firsts to investigate the strength of political connections based on political administrative rankings in the Vietnamese political system. Compared to other emerging economies outside China, the findings from the regression results in this study are also consistent with those of Jackowicz et al. (2014), in that firm profitability was lower in some cases in which the strength of political connections was high. For instance, the negative influence on performance was especially marked when Polish companies had multiple and simultaneous political relationships and when they utilised ex-politicians with experience in central powers. On the other hand, this study also employed a different measurement of political connection, the percentage of politically connected directors on boards, to measure the concentration of political connection. In particular, this study does not discern a concrete impact of the ratio of polcon on firm performance, thus indicating that the concentration of political connection does not matter for firm performance. This finding does not coincide with those of Sun et al. (2016) and Wang (2015), who discovered a strong impact of the ratio of politically connected directors on firm performance.

5.6.3. THE EFFECTS OF DISTINCT TYPES OF POLITICAL CONNECTION ON THE PERFORMANCE OF SOEs AND NON-SOEs:

TABLE 5-9: REGRESSION RESULTS FOR THE PERFORMANCE EFFECTS OF DISTINCT TYPES, STRENGTH AND RATIO OF POLITICAL CONNECTION IN STATE-CONTROLLED LISTED MANUFACTURING COMPANIES

	Model 5-11	Model 5-12	Model 5-13	Model 5-14	Model 5-15	Model 5-16
VARIABLES	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**
Polcon1	**-0.014**					
	(0.048)					
Polcon2		**0.013**				
		(0.123)				
Polcon3			**0.069**			
			(0.067)			
Polcon4				**0.037**		
				(0.078)		
PCstrength					**-0.010**	
					(0.041)	
Ratio of Polcon						**-0.059**
						(0.149)
SOE	**0.045**	**-0.058**	**-0.057**	**-0.049**	**-0.039**	**-0.056**
	(0.070)	(0.052)	(0.052)	(0.054)	(0.050)	(0.051)
Polcon1*SOE	**-0.129****					
	(0.063)					
Polcon2*SOE		**-0.024**				
		(0.101)				
Polcon3*SOE			**-0.028**			
			(0.075)			
Polcon4*SOE				**-0.059**		
				(0.065)		
PCstrength*SOE					**-0.067**	

					(0.042)	
Ratio of Polcon*SOE						**-0.086**
						(0.173)
CEO duality	**-0.056**	**-0.055**	**-0.054**	**-0.054**	**-0.058**	**-0.055**
	(0.035)	(0.036)	(0.036)	(0.036)	(0.036)	(0.036)
Ln(boardsize)	**0.135*** **	**0.128*** **	**0.127*** **	**0.128*** **	**0.132*** **	**0.125*** **
	(0.041)	(0.042)	(0.043)	(0.043)	(0.040)	(0.044)
Top1	**-0.0004**	**-0.0005**	**-0.00062**	**-0.00053**	**-0.00044**	**-0.00051**
	(0.0011)	(0.0011)	(0.0011)	(0.0011)	(0.0011)	(0.0011)
Top25	**0.0016**	**0.0016**	**0.0015**	**0.0016**	**0.0018**	**0.0017**
	(0.0013)	(0.0014)	(0.0014)	(0.0014)	(0.0014)	(0.0014)
Firm size	**0.233*** **	**0.224** **	**0.233** **	**0.224** **	**0.227** **	**0.225** **
	(0.087)	(0.087)	(0.088)	(0.087)	(0.087)	(0.088)
ROE	**0.0087*** **	**0.0087*** **	**0.0086*** **	**0.0087*** **	**0.0088*** **	**0.0087*** **
	(0.0012)	(0.0012)	(0.0012)	(0.0012)	(0.0012)	(0.0012)
Tangibility	**-0.020**	**-0.041**	**-0.040**	**-0.043**	**-0.033**	**-0.042**
	(0.110)	(0.108)	(0.108)	(0.108)	(0.109)	(0.109)
Leverage	**0.0035**	**-0.003**	**-0.0072**	**0.0031**	**0.018**	**0.003**
	(0.103)	(0.107)	(0.108)	(0.109)	(0.105)	(0.107)
Ln(firm age)	**-0.225***	**-0.197**	**-0.203**	**-0.201**	**-0.209***	**-0.195**
	(0.122)	(0.124)	(0.124)	(0.125)	(0.121)	(0.122)
Constant	**-0.732**	**-0.676**	**-0.761**	**-0.675**	**-0.712**	**-0.691**
	(1.066)	(1.079)	(1.074)	(1.074)	(1.062)	(1.078)
Firm – fixed	Yes	Yes	Yes	Yes	Yes	Yes
Year – fixed	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,296	1,296	1,296	1,296	1,296	1,296
Number of firm	172	172	172	172	172	172
Within R-squared	**0.409**	**0.399**	**0.400**	**0.399**	**0.405**	**0.400**

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

For the interactions between the distinct types of political connection and the dummy SOE variable, it is shown that the interaction between polcon1 and SOE has a negative coefficient, thereby suggesting that SOEs characterised by the presence of polcon1 have a lower performance than their counterparts without this presence. Therefore, this finding lends support to the first result, associated with the performance effect of the interaction between all types of political connection and SOE. On the other hand, no significant interactions between political connection types II, II, IV and SOE were found. Therefore, it can be shown that the role of Communist-Party membership; lecturers or cadres in state-affiliated academic universities/institutions; or managers or members of various industry associations in Vietnam appears to have no influence on the performance of state-controlled listed companies in Vietnam. Moreover, there are no joint effects of the strength or ratio of political connection and SOE on firm performance in either model 5-15 or 5-16.

TABLE 5-10: THE ANALYSIS OF THE MARGINS IN MODELS 5-11 TO 5-14:

Possible Combination	Margins			
	0 0	**0 1**	**1 0**	**1 1**
Polcon1 * SOE	**1.061*** (0.040)	**1.107*** (0.043)	**1.047*** (0.033)	**0.964*** (0.023)
Polcon2 * SOE	**1.062*** (0.029)	**1.0036*** (0.023)	**1.075*** (0.121)	**0.993*** (0.106)
Polcon3 * SOE	**1.057*** (0.030)	**0.999*** (0.022)	**1.126*** (0.065)	**1.040*** (0.058)
Polcon4 * SOE	**1.059*** (0.034)	**1.0098*** (0.024)	**1.096*** (0.059)	**0.987*** (0.055)

Delta-method standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

The values reported in the margins columns are the average Tobin's Q.

0: non-political connection and non-SOEs

1: political connection and SOEs

TABLE 5-11: THE ANALYSIS OF THE CONTRASTS RELATED TO THE EFFECTS OF POLITICAL CONNECTION:

The Effect of Types of Polcons	**Contrasts**		
	SOEs (1)	**Non-SOEs (2)**	**Difference (1 – 2)**
Polcon1	**-0.143*** (0.048)	**-0.014** (0.048)	**-0.129** (0.063)
Polcon2	**-0.010** (0.112)	**0.013** (0.123)	**-0.024** (0.101)
Polcon3	**0.040** (0.058)	**0.069** (0.067)	**-0.028** (0.075)
Polcon4	**-0.021** (0.059)	**0.037** (0.078)	**-0.059** (0.065)
PCstrength	**-0.077** (0.032)	**-0.010** (0.041)	**-0.067** (0.042)
Ratio of Polcon	**-0.145** (0.129)	**-0.059** (0.149)	**-0.086** (0.173)

Standard errors in parentheses

***** p<0.01, ** p<0.05, * p<0.1**

The margin analysis shows the average Tobin's Q for each combination of polcons and SOE, while the contrast analysis focuses on gauging the overall effect of polcons on the performance of SOEs and non-SOEs and between SOEs and non-SOEs. The investigation of the margins with reference to Table 5-11 indicates that the effect of polcon1 for SOEs is -0.143 (0.964-1.107), while the effect for non-SOEs is -0.014 (1.047-1.061). However, in Table 5-11, similar to the effect of polcon, the effect of polcon1 on SOEs is statistically significant, but its effect on non-SOEs is statistically insignificant. Taken together, the additional findings show that the existence of polcon1 on boards is unable to help either SOEs or non-SOEs to increase their performance. Collectively, the findings from the performance effect of polcon1 on SOEs and non-SOEs reinforces Hypothesis 5.3, but offer no support for Hypothesis 5.4.

For the performance effect of polcon2 seen in Table 5-11, the effect of polcon2 on SOEs is -0.010 (0.993 - 1.0036) and on non-SOEs it is 0.013 (1.075 - 1.062). However, neither effect is statistically significant, as evidenced in the contrast analysis shown in Table 5-11. This demonstrates that there is no certain effect of polcon2 on the performance of SOEs or non-SOEs in the contrast analysis. Regarding the performance effect of polcon3, it can be observed that the effect of polcon3 on SOEs is 0.040 (1.040 – 0.999) and on non-SOEs is 0.069 (1.126 – 1.057). However, similar to the performance effect of polcon2 on SOEs and non-SOEs, the effect of polcon3 on both is not statistically significant in the contrast analysis. Collectively, it is found that polcon3 could ambiguously help both SOEs and non-SOEs to improve their performance in the contrast analysis. For polcon4, the margin analysis points to the fact that the effect of polcon4 on the performance of SOEs and non-SOEs is -0.021 (0.987 – 1.0098) and 0.037 (1.096 – 1.059) respectively. These effects remain statistically insignificant in the contrast analysis. Such empirical results regarding the impact of the four different definitions of political connections conclude that only the first type of political connection has a negative impact on the performance of state-controlled companies, that is, the presence of government, military, court or procuracy officials or members of national, provincial and local Congresses. This finding from the performance effect of polcon1 in the further analysis continues to support the grabbing-hand role of political connection of all types of the state-controlled manufacturing companies. Consequently, the dark side of the presence of government, military, procuracy or court officials, or members of national, provincial or local Congresses, may result in an agency problem in the corporate governance of listed SOEs in Vietnam. However, inconclusive effects are found in terms of the interactions of political connection types II, III, IV and the dummy variable of SOE on the performance of listed manufacturing companies. Therefore, the role of managers and memberships of various industry associations, lecturers or cadres in state-affiliated academic universities or institutions, and Communist-Party members is equivocal in the firm fixed-effect estimation models. As a result, the findings also inadequately confirm all the hypotheses regarding the positive effects of all types of political connection on firm performance. These further findings also show that market investors should not be concerned about the presence of Communist-Party members, members of various industry associations, or lecturers or cadres of state-affiliated academic institutions/universities on the boards of SOEs and non-SOEs. On the other hand, they are likely to expect the forced or voluntary resignations of government, military, court, procurary officials and members of national, provincial and local congresses on the boards of listed SOEs. In contrast, market investors should also not be concerned about the presence of those officials on the board of listed non-SOEs.

The effect of the strength of political connections for SOEs is statistically significant at b=-0.077 and for non-SOEs it is insignificant. Therefore, when many types of political connection with different political administrative rankings exist wihthin a firm, the results show that the grabbing-hand role of such connections becomes more pronounced in SOEs than in non-SOEs. In other words, the politically connected directors in SOEs currently or formerly holding high positions in the political system are inclined to follow their rent-seeking interests rather than focusing on firm value maximisation. Otherwise, the performance effects of the ratio of political connection for both SOEs and non-SOEs are statistically insignificant, thus indicating that the number of politically connected directors on the board might not be sufficient to affect firm performance. In association with the control variables, their results remain unchanged compared to those in all the preceding models.

5.7. CONCLUSION OF CHAPTER 5:

The first aim of this chapter was to examine the direct influence of political connections on firm performance in the sample of listed manufacturing companies in Vietnam over the extended period of time from 2007 to 2016. The panel data set used in the chapter was mainly hand-collected from the annual reports of 172 listed manufacturing companies, other governmental agencies and internet sources. Market-based performance such as Tobin’s Q was employed as a proxy for firm performance. The findings reveal that the performance effect of politically connected directors on the board is rent-seeking, and hence the presence of such members of the board of directors or supervisory board is not beneficial for the performance of the company. The above findings support Hypothesis 5.2, which states that political connection will have a negative influence on market-based company performance. The second aim of the chapter was to explore the effects of political connection on the performance of listed SOEs and non-SOEs. In relation to the knowledge-based scope of the thesis, few studies have been conducted to date on whether the impact of political connection on the operational performance of the companies is likely to vary between state-controlled and non-state-controlled companies. Moreover, previous studies have often focused on samples of listed Chinese companies, which may result in the findings being generalisable to other emerging countries. Using a sample of Vietnamese listed companies in the manufacturing sector and a different recent research time span (2007 – 2016), this study is expected to extend the findings of the previous studies on China. As a result, the baseline model underpins the notion that political connection is of no value to listed privately controlled companies, which is not in line with the integrated theoretical resource dependency and helping-hand frameworks. In contrast, the study has discovered that the presence of politically connected board of directors or supervisory board members is detrimental to the performance of state-controlled manufacturing enterprises. This finding is in favour of the theoretical and empirical realms, that the competitive advantages of political connection are likely to be restrained in state-controlled manufacturing companies. In other words, such companies may aim to employ political connection in a different manner than privately-controlled manufacturing companies. This finding thus endorses the integrated theoretical agency and grabbing-hand frameworks, which leads to the notion that politically connected board of directors or supervisory board pursue rent-seeking interests instead of maximising the firm’s economic value and shareholder’s interests. This negative consequence inevitably results in agency conflicts between the state, as largest shareholder, and minority shareholders.

The findings of the chapter contribute to the literature on the performance effect of political connections in emerging countries (Faccio, 2005; Fan et al., 2007; Li *et al.*, 2008). The majority of studies have discovered a positive performance effect of political connection

(Boubakri et al., 2008; Bao et al., 2015; Shin *et al.*, 2017), although a few have identified a negative role (Wong, 2010; Habib et al., 2017). The findings from the main regression analysis of this study also contribute to the research on the performance effect of political connections in Vietnam by Malesky & Taussig (2009), who also discovered the grabbing-hand role of politically connected owners in a survey sample of entrepreneurial companies employing data from the General Statistics Office. However, this study differs from that of Malesky & Taussig (2009), in that its approach is focused on the structure of corporate governance, based on the collection of biographical information of the board members, the board of directors and the supervisory board members. Moreover, unlike other studies on political connections, and in line with the Vietnamese context, this study complements the definitions of political connection in previous studies by expanding its meaning. Specifically, the study considers a Chairperson, CEO, director or board member to be politically connected if he or she has previously held or currently holds a position in the Communist Party Committee, the government, military, procuracy or courts, the People's Council or National Council; is a member of the Communist-Party; or is a lecturer or official in state-affiliated academic universities/institutions. These types of political connection have often been overlooked in previous studies (Liu et al., 2016; Tang *et al.*, 2016; Shin *et al.*, 2017; Shi et al., 2018). On the other hands, the findings from the further analysis show that the presence of type I politically connected directors or supervisory board members, such as government, procuracy, court or military officials, or members of the National Congress or People's Council, has a negative effect on firm performance. In comparison to the first category of political connection, it has been found that the presence of politically connected directors who are, or used to be, members of the Communist Party, managers or members of various industry associations, or lecturers or officials in state-affiliated academic universities/institutions is not likely to influence the performance of the manufacturing listed companies in Vietnam. These findings from the further analysis contribute to the literature on how each type of political connection might have different effects on corporate governance. This contrasts with the study of Wong et al. (2018), but is in line with that of Shi et al. (2018). Furthermore, the findings on the strength of political connection extend the results of Chen et al. (2017), indicating a negative performance effect of companies having multiple political connections with higher administrative rankings in the highly unified Vietnamese political system. This shows that a greater number of interactions with governmental officials by a company could become disadvantageous to its operations based on the measurement of market-based performance. Therefore, these interactions result in more hurdles for firms rather than providing them with resources. In addition, previous studies have often analysed the effect of political connection on the performance of companies in multiple sectors (Wang and Lin, 2017; You and Du, 2012; Cao et al. 2017; Wu et al. 2018), but with a few also aiming to assess such impact on one specific sector, such as the manufacturing industry (Zhang *et al.*, 2014; Sun et al., 2016); the real-estate industry (Ling, Zhou, Liang, Song, & Zeng, 2016); the air transportation industry (Brown, 2016); and the tourism industry (Wang and Xu, 2011). Therefore, this study contributes to this strand of literature by describing the performance effect of political connection on the manufacturing listed companies in Vietnam.

Furthermore, the second finding of the study help to reconcile the inconclusive findings of previous research on the importance of taking into account the identity of the controlling shareholders, which tends to have been previously underexplored, in order to examine the net value effect of political connections (Wu et al. 2012; Wang, 2015; Tihanyi *et al.*, 2019). In other words, this study contributes to the literature by examining the value effect of political connections by taking into account the different ownership ties, namely state-controlled and non-state-controlled enterprises (SOEs and non-SOEs respectively). In addition, the study answers the research call from Tihanyi et al. (2019) for further integration of state ownership and political connections. Tihanyi *et al.* (2019) themselves made a first attempt at linking the two strands of state ownership and political connection by proposing that they have different goals and motivations. While companies connect with the state to help follow their corporate agendas, the state invests in firms to pursue its policy agendas. The different strategic decisions followed by these companies are consistent with their interests. The findings from this chapter have shown that the competitive advantages obtained by political connections are restrained in SOEs. Generally, the empirical evidence suggests that the benefits of political connections are lost in SOEs, confirming the coexistence-versus-substitution effect between these forms of state involvement.

Given the negative and positive influences of politically connected board of directors or supervisory board members in state-controlled and non-state-controlled manufacturing companies respectively, the policy makers should place more emphasis on improving the regulatory framework to restrain the rent-seeking or highly corrupt practices of politically connected board directors or supervisory board members. In parallel with the advanced legal framework, the government should put greater effort into creating a more enabling business environment for private enterprises. In particular, because of the discriminatory business environment faced by private companies in Vietnam, they tend to forge closer relationships with government officials to increase their legitimacy (Vu et al. 2015; Nguyen, 2009). Therefore, private companies should have more equal access to government resources, specifically bank loans from government, critical information and government contracts. Currently, however, one of the most crucial institutional and economic reforms in the context of the Vietnamese business environment is the privatisation process (Boubakri et al. 2008; Vu *et al.*, 2015). In recent years, this process has only yielded a modest outcome, as the driving forces of Vietnamese economic development remains state-owned business groups. However, the effectiveness of the corporate governance of these economic groups is considered to be low, as a result of the rent-seeking or highly corrupt practices of government officials acting as the directors in these groups (Kim et al. 2010). Therefore, the privatisation is likely one of the most significant facets of economic and institutional reforms in Vietnam (Boubakri et al. 2008; Domadenik et al. 2015). Through the stronger implementation of the privatisation process in Vietnam, the role of state as business owner will be eroded and replaced by the role of regulator of the economy, which leads to the perspective that the state will transforms its role from economic intervention to institutional reforms[23] (Shleifer & Vishny, 1998; Fan

[23] The phenomenon of the state acting both as business owner and regulator in the economy is termed as “both kick the ball and blow the whistle”

et al. 2007). On the basis of this empirical chapter, the following chapter will undertake more in-depth investigation of the influence of legal framework improvement and the implementation of anti-corruption campaigns and other institutions, on the political connection-firm performance relationship. Conducting such analysis will help answer the following empirical question: “How does the role of political connection vary during regional institutional development?”

CHAPTER SIX: THE ROLE OF POLITICAL CONNECTION DURING REGIONAL INSTITUTIONAL DEVELOPMENT: A UNIFIED FRAMEWORK OF CONTINGENCY AND RESOURCES-BASED VIEWPOINTS.

6.1. INTRODUCTION:

In accordance with the earlier findings presented in Chapter 5, it is recommended that the government should liberalise the market, decentralise state control, and restrain government intervention. In addition, the equitisation or privatisation process needs to be promoted, with the institutional reform being one of the priority government targets. A question naturally arises: what role does political connection play in the face of the progression of the regional institutional environment?. Since the early economic and institutional reforms of 1990, the Vietnamese government has already made the plans for the diffusion of liberal state models across the provinces. This emphasises the fact that provincial institutional development was recognised in the very early stages of the process. Considering the overall picture of institutional development at the national level, however, it can be seen that the market-oriented reforms have not been homogenous throughout Vietnam; the quality of formal institutions have been subject to significant variations among the provinces. In the institutional heterogeneity across provinces, political connection might play different roles in entrepreneurial activities (USAID et al., 2015). On the other hand, according to the report by USAID et al. (2016), the majority of the firms surveyed perceived that their dependence on political connections was necessary to obtain information relevant to provincial developmental policies, to reach legal settlements in commercial disagreements, and to avoid the frequent harassment of inspections by government officials, among other advantages. Many previous empirical studies have conjectured that political connections play a substituting role for formal institutions, and thus their effect might weaken as such insitutions improve (Zhou, 2014). However, other empirical studies have also highlighted that political connections complement formal institutional growth in facilitating entrepreneurial growth (Ferris et al., 2016). As a result, it is unclear as to whether they complement or substitute for formal institutions, since political connections to date have had even more influential effects on entrepreneurial activities (Bao et al., 2015).

On the other hand, through the initiative of the evaluation of the business environment in Vietnam, the Vietnamese Chamber of Commerce and Industry, in a joint partnership with the United States Agency for International Development, started to collect information on private companies' perceptions of the business environment across different industrial sectors in 64 provinces in Vietnam in 2006. All the information collected relevant to the aim of forming a friendly-business environment across Vietnamese provinces is being compiled into a provincial competitiveness index, consisting of many institutional indicators. Utilising this unique database, the main aim of this chapter is to re-examine the performance effect of political connection once the regional institutional reforms have achieved a higher level of efficiency. The varied institutional indicators consist of the legal system, the corruption, the business support service, and the entry costs. The rationale to include these institutional variables derives from the limited extent of studies on how such variables interact with political connection in determining firm performance. It has long been recognised in the literature on political connection that its relationship with firm performance is reliant upon the specific contexts (Peng et al., 2005). However, this stream of research remains underdeveloped. In particular, the empirical evidence on the joint effect of political connection and such institutional indicators on the operational activities of firms is inconclusive (Brockman et al., 2013; Chen et al., 2014; Zhou, 2014; Zhao et al., 2016).

The contribution of this chapter is to enrich our understanding of the contingent role of political connections in emerging countries in different institutional conditions. The majority of previous studies on political connection are limited to overall appraisal of its influence on firm performance. Therefore, this chapter departs from earlier research by taking a closer look at how the regional institutional environment influences the association between political connection and firm performance. Moreover, many studies have not employed a specific measurement of formal institutions, but either employ a country dummy (one specific country versus other transitional or emerging countries) or time (before versus after a certain year) to show institutional differences (Cull & Xu, 2005; Zhou, 2011). Using a different approach to these studies, this chapter is based on one index jointly compiled by VCCI and USAID[24] to measure the development of formal regional institutions. The index is different from the NERI index[25] used by some studies, such as those of Fan et al. (2007) and Zhou (2014) in China, because it embodies more institutional indicators specific to the Vietnamese context and reflects the fundamental paradigm of institutional reforms in Vietnam. Unlike Chapter 5, in general this chapter establishes that the effect of political connection becomes positive as the quality of the legal system and the perceived level of corruption at the regional level improve. Using a unified framework based on the contingency approach and resources-based viewpoint, politically connected directors or supervisory board members become a valuable human resource asset in improving the operational performance of the listed companies. In contrast, the role of political connection does not seem to be influenced by the development of business support services and the extent of entry barriers at the regional level. This demonstrates that political connection may not help the listed companies in the sample to procure the competitive advantages during the development of business intermediaries and the different levels of entry barriers to entrepreneurial participation. These findings remain unchanged when the definition of political connection is narrowed down and the strength and ratio of political connection are employed in the robustness check section of the chapter. The findings may help international and market investors to comprehend the context of the Vietnamese business environment and the fact that mutual interaction between political relationships and the business environment is inevitable at any level of institutional development.

[24] VCCI and USAID stand for the Vietnam Chamber of Commerce and Industry and the United States Agency for International Development.
[25] The NERI index is used to measure the regional institutional development in China.

The structure of the chapter is as follows: Section 6.2 presents the development of hypotheses. Section 6.3 provides the empirical strategy. Section 6.4 presents the analysis of results; and Section 6.5 focuses on the discussions of the findings.

6.2. HYPOTHESIS DEVELOPMENT:

The literature in Chapter 3 shows that the role of political connection may be reshaped in relation to the ever-evolving institutional environment (Zhao et al., 2016; Yan and Chang, 2018). These studies adopt contingency and resources-based theoretical angles to unravel how political connection and regional institutional development interactively influence the performance of listed companies. Adopting this theoretical line of reasoning, this study also adheres to the combined framework of contingency and resources-based viewpoints to develop the hypotheses and interpret the findings.

The weak quality of legal enforcements opens the door to informal practices, including political connection (Malesky & Taussig, 2009; La Porta et al., 1998). In situations in which legal enforcement is not sufficient to protect firms' operations and private property rights, political connections can be an alternative mechanism through which firms can facilitate their business activities, and consequently improve firm performance (Li *et al.*, 2008; Brockman et al., 2013). Specifically, political connections reduce the cost of settlements linked to legal failures, as in developing countries, when legal enforcement and protection are not available or are appropriate, disputes between enterprises, or between enterprises and creditors, are most resolved or influenced by government bureaucrats rather than the courts (Zhou, 2014; La Porta et al., 1999; Shleifer & Vishny, 1998). Moreover, in many emerging countries, politically connected firms are more likely to receive protection or sponsorship from government if facing insolvency or financial problems (Cheng & Leung, 2016; Faccio et al., 2006). Therefore, in regions where the legal institutions cannot settle disputes between creditors and enterprises, creditors such as banks often perceive a firm's political connections as a major form of collateral for their financing decisions (Malesky & Taussig, 2009). From the above arguments, inferior legal institutions in countries or regions make entrepreneurs participate in politics in order to give them an advantage in the face of weak legal enforcement of economic and commercial disputes. This suggests that the benefits of an entrepreneur's political connections may be more evident for firms operating in less protective legal environments (Faccio & Hsu, 2013; Shi et al., 2018). These previous studies support the substitution role of political connections for law and order weaknesses (Li *et al.*, 2008; Brockman et al., 2013).

On the other hand, taking the opposing viewpoint, some researchers contend that the facilitating role of political connection in many developing and transition economies may not evolve from the fragility of the legal system, but from the long-existing political markets that promote resource allocation and problem solving via political power (Boisot et al. 1996). In such circumstances, political connection has been found to play an important role in political and economic areas because of newly established political markets in those former transition economies or regions that have successfully created the rule of law, such as Hungary (Stark & Vedres, 2012). In addition, as the quality of legal institutions improves, politically connected directors on boards are less likely to extract the economic rents from the firm. Specifically, the legal system becomes increasingly stricter and more efficient in punishing bureaucrats for any corruption (Berkman et al., 2010; Domadenik et al., 2015). Therefore, this line of reasoning implies that political connection plays a resource-providing role in the operations of the companies in regions that have successfully established the order of the rule of law, rather than compensating for fragility in the rule of law. This in turn promotes the value of the firms in these regions.

Hypothesis 6.1: There is the positive effect of political connection on the performance of listed companies in the provinces characterised by better quality of legal institutions.

Based on many earlier studies, the effect of political connection can be more pronounced in the regions characterised by a high level of corruption (Faccio, 2005; Brockman et al., 2013). It could be argued that weak institutional environments give corrupt politicians a free hand to use firms for their private benefits, thus incurring additional costs for shareholders, which in turn negatively influences firm performance (Brockman et al., 2013; Xu et al., 2016). On the other hand, a country or region characterised by a well-functioning legal system will benefit from fair application of the law, more transparency of government activities, and rigorous enforcement of rules and policies. In such countries or regions, politicians are more strictly supervised and checked to deter them from abusing their power in pursuit of private interests at the public's cost. Consequently, it is assumed that the corrupt incentives of the politicians on boards may be controlled, making them provide firms with resources, rather than extracting the resources from them (Berkman et al., 2010; Shin *et al.*, 2017). Many previous studies have pinpointed that in economies with a well-functioning legal system and low level of corruption, former politicians acting on the board of directors might still be valuable for the firm in various ways (Ferris et al., 2016; Ridge et al., 2016). For instance, the prospects of future industrial employment may lead politicians to adapt their behaviour in a favourable way for prospective employers regarding the enforcement of regulations. In exchange, the companies might receive the networking benefits of former or current politicians, allowing them to save time when handling regulatory procedures. Based on the literature review, the study theoretically hypothesises that political connection may be harmful to firm performance in regions characterised by a high level of corruption, but that this effect becomes weaker or even becomes positive in provinces with low levels of political corruption.

Hypothesis 6.2: There is the positive effect of political connection on the performance of listed companies in provinces with low levels of corruption.

Political connections provide companies with advantages when attempting to enter industries or regions with high entry barriers, allowing them to seek favours from government officials who have ultimate control over scare resources (Tsang, 1998). Such patronages includes receipt of entry permits, information about governmental policies, and easy access to finance and technology (Hellman et al., 2003; Peng et al., 2005). Thanks to the potential influence of political connection on government policies, and based on the theoretical viewpoint of resource dependency, politically connected firms may find it easier to enter provinces with high barriers or to prevent the market entry of new competitors in the same provinces.

On the contrary, when firms focus their business on industries with low entry barriers or when their involvement in industries with high entry barriers is low, their political connections are therefore less important. Furthermore, in industries with less market entry difficulties, the role of governmental agencies in allocating resources is diminished. In such circumstances, instead of securing resources procured by political connection, companies are more likely to secure those from market intermediaries such as brokers, traders, dealers, and companies specialised in searching for executives (W. Li et al., 2012).

On the other hand, Boubakri et al. (2008) employed the measurements of Djankov et al. (2002), namely the number of start-up procedures, to proxy for bureaucracy. In their explanations, a large number of such procedures will constitute a barrier to entry and will protect incumbent firms against competition. Many privatised firms are either monopolistic or quasi-monopolistic, so appreciate such entry barriers. Political connections can help to protect firms against competition. Specifically, politically connected firms can often use their influence or power to manipulate or to influence local government officials' decisions on issuing the regulatory barriers against the competitors' market participation. Therefore, it is hypothesised that political connection is beneficial for firm performance in the institutional context of high entry barriers.

Hypothesis 6.3: There is the positive effect of political connection on the performance of listed companies in the provinces characterised by a high level of entry barriers.

Intermediate institutions refer to professional service organisations that provide firms with supporting services in areas such as accounting and finance, talent search, law, and technology services (Yan and Li, 2010). McEvily and Zaheer (1999) state that such institutions "facilitate the development of competitive capabilities among local firms by acting as network intermediaries for interaction and information exchange among firms." Specifically, they sit at the intersection of many firms, organisations and industries, and often promote the exchange of information on the innovation and the process of technology transfer between firms (Wolpert, 2002).

Furthermore, institutional deficiency, especially the lack of intermediate institutions, facilitates transition economies (Palepu & Khanna, 2006). A lack of intermediate institutions promotes firms' dependence upon both political and informal relationships in order to facilitate their activities in transition economies (Peng, 2003). However, as economic transition proceeds, and intermediate institutions become relatively more developed, they fill gaps by supplying support services to facilitate market-based transitions and the flow of information. They are conducive to economic exchanges which help achieve conditions that are appropriate for making transactions more reliant on market institutions rather than on political or informal personal relationships (Khanna & Palepu, 1997). Therefore, the variation in the development of intermediate institutions shows the different effects of political capital on firms' operational efficiency. Furthermore, the development of such institutions is heterogeneous across regions in Vietnam, and it is expected that in regions with better-developed intermediate institutions, the capabilities of political capital in influencing firms' operational efficiency will be weakened. Specifically, the presence of a large number of intermediate institutions in a region indicates an information-rich environment, which provides a variety of alternative sources of knowledge and information which give further opportunities to private enterprises to apply their skills and knowledge as they seek business opportunities (Zhao et al., 2016). Institution-based research explains that intermediate institutions supply objective information and advice and encourage the spread of information (Gulati, 1998; Wolpert, 2002). The following hypothesis is therefore proposed:

Hypothesis 6.4: There is a positive effect of political connection on firm performance in provinces characterised by low quality of intermediate institutions.

6.3. EMPIRICAL STRATEGY:

6.3.1. DEFINITION OF THE VARIABLES:

Similar to Chapter 5, the data sample in this chapter consists of an unbalanced sample of 172 manufacturing companies between 2007 and 2016. The biographical information about members of board of directors was obtained from the annual reports of the listed companies, while financial data was extracted from the financial data provider of Vietstock in Vietnam. The chapter utilises the same dependent, independent and control variables as Chapter 5. However, additional macroeconomic variables are also included in the model, such as GDP per capita, GDP growth, and employment. Previous studies have identified a relationship between a region's level of entrepreneurial performance and its degree of economic development, as proxied by its income per capita (Wennekers et al., 2005). Early research shows a negative relationship, but more recent studies have shown a U-shaped relationship due to higher levels of human capital, higher product diversity, and changes in the sectoral variety of activities (e.g., a shift towards services) as regions obtain higher levels of income per capita (Wennekers et al., 2005). Based on previous research, this study uses income per capita as a control variable for the variation across provinces of the distribution of entrepreneurial effort towards high-growth activities. Previous studies have identified a positive relationship between the rate of GDP growth and level of entrepreneurial performance across countries and over time (Carree et al., 2002). Because the dependent variable of this study is relevant to company performance, a higher rate of GDP growth would be expected to be in favour of such expectations, which predict a positive relationship between a province's GDP growth rate and firm performance. Regarding employment, some studies have shown that regions with a high percentage of skilled labour over total population often provide companies with sources of high-quality employees, which promotes company performance (Bin et al., 2020). In particular, such employees have high levels of education, professionalism and skills to adapt to companies' increasing scales of regional production (Bin et al., 2020). Consequently, this study used the percentage of skilled labour aged over 18 to the total population in a province to proxy for the level of employment.

With regard to institutional data, the database of the Provincial Competitiveness Index (PCI) jointly compiled by the Vietnam Chamber of Commerce and Industry (VCCI) and the United States Agency for International Development (USAID) was employed. The PCI was introduced in 2005, with the VCCI and USAID conducting an annual business survey, evaluation and ranking of the economic governance quality of provincial governments in forming a favourable business environment for the development of the private sector. The data for the provincial competitiveness index for 2007 to 2016 are available on its website.

In general, the PCI encompasses ten sub-indices, reflecting the economic governance sectors which influence the development of the private sector. A province that has a high PCI index is one that has: (1) low entry costs for business start-ups; (2) easy access to land and security of business premises; (3) a transparent and equitable business environment; (4) minimal informal charges; (5) limited time requirements for bureaucratic procedures and inspections; (6) limited crowding out of private activity from policy biases in relation to state, foreign, or connected companies; (7) proactive and creative provincial leadership in dealing with enterprise problems; (8) developed and high-quality business support services; (9) sound labour training policies; and (10) fair and effective legal procedures for dispute resolution.

The PCI is formulated in a three-step sequence, referred to as “the three Cs”: 1) gather business survey data and published data sources; 2) compute nine sub-indices and standardise to a 10-point scale; and 3) calibrate the PCI composites as the weighted mean of nine sub-indices with a maximum score of 100 points. The firm sample was selected using random sampling to represent provincial populations, and the stratification was used to guarantee that firm age, legal type, and sector were accurately represented. This chapter adopts the approach of Zhou (2014) and Wu *et al.* (2018) by defining a region as a province or a central city and assigning firms to regions based on the province/city in which they have their headquarters. For the scope of the thesis based on the previously defined hypotheses, four institutional indicators are used in the study: Legal institutions, the extent of informal payments (the extent of corruption), entry costs and business support services.

TABLE 6- 1: INSTITUTIONAL INDICATORS COMPONENTS.

Institutional Indicators	**The Components of Institutional Indicators**
Corruption Indicator	The enterprises in my line of business usually have to pay for informal charges
	The percentage of firms paying over 10 percent of their revenue in informal charges.
	The rent-seeking phenomenon is widespread in handling administrative procedures for businesses
	The informal charges delivered expected results.
	The informal charges are at acceptable levels.
Corruption Score	**A higher score indicates a lower extent of corruption in a province.**
Legal System Indicator	The legal system provides mechanisms for firms to appeal against officials' corrupt behaviour.
	Firms are confident that the legal system will uphold their property rights and contrasts.
	Number of cases filed by non-state entities at the provincial economic court per 100 firms
	Percentage of claimants at the provincial economic court
	Non-state claimants as Provincial court judge economic cases by the law
	Provincial court resolve economic cases quickly

	Court judgments are enforced quickly
	Legal aid agencies support business in the use of laws when disputes arise
	Formal and informal costs are acceptable; judgements by the court are fair.
	Willingness to use the courts when disputes arise; percentage of cases solved
Legal System Score	**A higher score indicates the better legal system quality.**
Entry Cost Indicator	Length of business registration in days.
	Median wait in days to wait for land use rights certificate.
	Percentage of firms waiting more than one month to complete all steps necessary to start operations.
	Percentage of firms waiting more than three months to complete all steps necessary to start operations.
	Percentage of firms registering or re-registering through a one-stop shop.
	Guidance and instruction on procedures at the one-stop-shop are clear and adequate.
	Staffs at the one-stop-shop are professional and knowledgeable.
	Staffs at the one-stop-shop are friendly.
	IT application at the one-stop-shop is good.
	None of the above criteria are met.

Entry Cost Score	**A higher score indicates a low level of entry costs in a province.**
Business Support Service Indicator	Trade fairs held by the province in previous years and registered for present years.
	Ratio of the total number of service providers to the total number of firms.
	The firm has used business information search services.
	The firm has used private providers for business information search services.
	The firm intends to use the service provider again for business information search services.
	The firm has used consulting on regulatory information
	The firm used private provider for consulting on regulatory information
	The firm intends to use the service provider again for consulting on regulatory information.
	The firm has used business match making services.
	The firm used private provider for business match making services.
	The firm intends to use the service provider again for business match making services.
Business Support Service Score	**A higher score indicates a better quality of business support service.**

6.3.2. ECONOMETRIC MODEL AND VARIABLES:

This sub-section aims to illustrate the empirical models with the purpose of ascertaining the outcomes that support or reject the suggested hypotheses. The model used to test the hypotheses is shown below:

$$FP_{i,t} = \alpha_1 + \beta_1 * PC_{i,t} + \beta_2 * Institutions_{j,i,t} + \beta_3 * Institutions_{j,i,t} * PC_{i,t} + \beta_4 * lnboardsize_{i,t} + \beta_5 * CEOduality_{i,t} + \beta_6 * Top1_{i,t} + \beta_7 * Top25_{i,t} + \beta_8 * lnfirmage_{i,t} + \beta_9 * Size_{i,t} + \beta_{10} * leverage_{i,t} + \beta_{11} * tangibility_{i,t} + \beta_{12} * GDPpercapita_{j,i,t} + \beta_{13} * GDPgrowth_{j,i,t} + \beta_{14} * Employment_{j,i,t} + \varepsilon_{i,t}$$

Where, i=1,…., 172 companies and j=1,…., n provinces.

Identification of the dependent variable, independent and control variables was made in Chapter 5. The new institutional and macro-economic variables are justified as follows:

Moderating Variables:

$Institutions_{j,i,t}$ includes the institutional indicators as follows:

$Legal\ system_{j,i,t}$ shows the quality of the legal system in the province j in which the firm i is located at time t.

$Corruption_{j,i,t}$ shows the extent of corruption in the province j in which the firm i is located at time t.

$Entrycosts_{j,i,t}$ shows the level of barriers against start-ups' entry in the province j in which the firm i is located at time t.

$Business\ Support\ Service_{j,i,t}$ shows the quality of business support service in the province j in which the firm i is located at time t.

The control variables in this study consist of the following firm characteristics:

$GDPpercapita_{j,i,t}$ is the measure of the economic output that accounts for the number of people in the province j in which the firm i is located at time t.

$GDPgrowth_{j,i,t}$ is the rate of GDP growth in the province j in which the firm i is located at time t.

$Employment_{j,i,t}$ is the percentage of trained employed workers aged 15 years of age and above in the province j in which the firm i is located at time t.

According to Baron & Kenny (1986), the moderation hypotheses between political connection and regional institutional indicators exist if their interactions are statistically significant. There may be the significantly main effects of political connection and regional institutional indicators on Tobin's Q, but they are not directly relevant to the moderation hypothesis. However, the regression models, including the interaction terms, often suffer from the issues of multi-collinearity (Iacobucci et al., 2017). The optimal solution, as suggested by Iacobucci et al. (2017), is mean-centering of the continuous predictors prior to calculating the product term. Therefore, before running regressions, this study tended to mean-center the main continuous variables in the model, namely the legal system, corruption, entry costs, business support services and the strength and ratio of political connection before interacting them together in the model.

According to previous studies (Shi et al., 2018; Wong and Hooy, 2018), there are the different functions characterised by disparate types of political connection in the firms. Accordingly, a further step is taken in this chapter to separate the effect of different types of political connection. Furthermore, the aggregation of these different types may help to establish the strength of political connection, instead of discovering the effect of the distinct types of political connection (Chen et al., 2017). In doing so, it is believed that various types of political connection can be integrated to make the operational efficiency of the firm better or weaker compared to use of only one. The process of creating the strength of political connection has been suggested in Chapter 5. In continuation, this chapter also takes account of the concentration of political connection as measured by the ratio of politically connected directors on the board to consider the effect of interactions of this concentration and regional institutional indicators on firm performance. Deployment of concentration of political connection may help to quantify its nature on a continuous scale, instead of using one binary measurement to calculate its existence. The following sections will examine in more details and interpret the empirical results.

6.3.3. METHODOLOGY:

Similar to the methodology employed in Chapter 5, this section uses panel data analysis as the main method of estimation to capture the long-run joint impact of political connection and regional institutional development upon firm performance. Therefore, fixed-effects and random-effects analysis of estimation are also employed. The Hausman test and F-test exhibit the appropriate models of estimation, and test-parm test is used to determine whether time dummies need to be included in all the models or not. The advantages of using fixed-effects and random-effects models were discussed Chapter 4. As in Chapter 5, two-step system GMM estimation is employed to deal with the endogeneity issue. In addition, the results for ARtest (1) and ARtest (2) are reported to check for issues of auto-correlation, and a Hansen test conducted to examine the validity of instruments in the two-step system GMM model.

6.4. PRE-REGRESSION RESULTS:

6.4.1. DESCRIPTIVE STATISTICS:

This sub-section presents the descriptive statistics of the variables utilised in this chapter for each province, representing the main characteristics of the data, and involving the mean value.

The results in Table 6-2 show the distribution and incidence of all the variables for each province. For the variable of political connection, politically connected companies are most prevalent in eleven provinces. In particular, the majority of which are distributed in the northern and southern regions of Vietnam. Additionally, the power of political connection is the highest in the province of Kon Tum (2.325), whereas its concentration is the highest in the province of An Giang (1.193).

With regard to institutional indicators, Da Nang has the highest-quality legal system (5.862), whilst Dong Thap has the highest level of corruption (7.216). Da Nang also has the lowest level of market entry costs (8.899). Unsurprisingly, Ho Chi Minh City, the economic hub of the country, has the best quality of business support services, in terms of the development and size of the financial market, workforce, and services (7.190). As for the indicators of economic growth, Bac Ninh has the highest GDP growth (12.55), while BRVT has the highest GDP per capita (114.1). Regarding employment, Hoa Binh is the province with the largest percentage of skilled workers out of total employment (63.4).

TABLE 6-2: SUMMARY STATISTICS OF ALL VARIABLES BY PROVINCES:

Variable	Obs	Polcon	Polcon1	Polcon2	Polcon3	Polcon4	PCstrength	Ratio of Polcon	Tobin's Q	CEO Duality	Ln(boardsize)	Top1	Top25
An Giang	41	1	1	0.243	0.243	0.146	1.531	1.193	0.939	0.682	1.549	35.16	20.29
BRVT	11	0.636	0.636	0	0	0.090	1.381	1.136	0.961	0.545	1.255	49.74	1.27
Bac Lieu	9	0.333	0.333	0	0	0	0.462	0	0.951	0	1.459	29.73	13.41
Bac Ninh	33	1	1	0	0	0	1.673	0.182	0.881	0.515	1.496	35.11	14.78
Ben Tre	25	0.92	0.84	0	0	0.36	1.233	0.050	1.081	0.64	1.418	28.93	17.45
Binh Dinh	10	1	1	0	0	0	1.609	0.396	1.654	0.9	1.287	29.71	24.59
Binh Duong	88	0.727	0.647	0.079	0.068	0.011	0.916	0.013	0.933	0.386	1.436	28.98	20.44
Binh Thuan	9	1	1	0	1	0	2.015	0.287	0.979	0.875	1.258	40	0
Ca Mau	17	0.823	0.647	0.176	0.235	0.176	0.967	0.034	1.022	0.647	1.728	36.99	21.76
Can Tho	34	0.764	0.441	0	0.411	0.205	1.306	0.112	1.351	0.823	1.336	30.35	16.69
Da Nang	51	0.705	0.549	0	0	0.137	0.834	0.086	1.017	0.431	1.381	39.77	15.17
Dong Nai	98	0.469	0.469	0	0	0.112	0.813	0.059	0.951	0.224	1.319	41.54	12.63
Dong Thap	34	0.470	0.411	0	0	0.294	0.983	0.096	1.320	0.470	1.452	36.17	19.94

Gia Lai	7	0.714	0.714	0	0	0	0.751	0.017	1.018	0	1.850	35.23	9.52
Ha Nam	12	0.464	0.416	0	0	0.416	0.821	0.183	0.785	0	1.459	37.10	11.36
Ha Noi	196	0.765	0.668	0.0051	0.102	0.158	1.170	0.065	0.941	0.443	1.423	33.02	15.20
Hai Duong	15	1	1	0	0.2	0.2	1.430	0.161	1.049	0.466	1.379	35.58	10.73
Hai Phong	42	0.690	0.690	0	0.190	0.190	1.094	0.125	0.882	0.119	1.460	32.69	10.12
Hoa Binh	8	0	0	0	0	0	0	0	0.526	0	1.298	29.33	4.33
Hung Yen	25	0.6	0.6	0	0	0.4	0.702	0.070	1.210	0.36	1.606	33.76	8.99
Kon Tum	7	1	1	0	0	0	2.325	0.476	0.518	0	1.304	41.67	13.75
Lam Dong	14	0.5	0.5	0	0	0	0.804	0.118	0.802	0.538	1.431	36.38	27.91
Long An	15	1	1	0.267	0	0	1.509	0.317	1.015	0.6	1.675	33.69	15.48
Nghe An	15	0.533	0.533	0	0	0.533	0.857	0.046	0.960	0	1.479	60.40	2.14
Ninh Binh	4	0	0	0	0	0	0	0	0.378	0.5	1.442	51	20.82
Phu Tho	10	1	1	0	0	0.1	1.126	0.15	1.177	0.1	1.512	68.56	0
Quang Nam	10	0.8	0.8	0	0	0	1.109	0.233	1.199	0	1.127	51.48	0
Quang Ninh	22	0.409	0.409	0	0	0.409	0.472	0	0.739	0.363	1.450	30.49	2.72
Soc Trang	10	1	1	1	0	1	1.905	0.161	1.005	0.9	1.801	29.26	10.49
Son La	5	0.8	0.6	0	0	0.8	1.577	0.17	1.390	0	1.462	33.15	29.49
Thanh Hoa	14	1	1	0	0	0	1.546	0.167	0.918	0.428	1.357	54.25	2.89
Tp HCM	393	0.636	0.559	0.022	0.071	0.190	1.039	0.113	1.115	0.302	1.473	33.66	14.41
Vinh Long	9	0.667	0.667	0	0	0.667	0.732	0	1.129	0.555	1.522	37.91	12.40
Yen Bai	9	1	1	0	0	1	1.945	0	1.241	1	1.354	10	11.41

	Obs	**ROE**	**Firm Size**	**Tangibility**	**Leverage**	**Legal System**	**Corruption**	**Entry Costs**	**Busines Support Services**	**GDP Growth**	**GDP Per Capita**	**Employment**
An Giang	41	11.23	12.18	0.22	54.45	5.065	6.272	8.367	5.297	7.033	24.19	56.65
BRVT	11	15.086	11.66	0.327	41.37	4.99	6.019	8.133	5.216	5.732	114.1	52.43
Bac Lieu	9	8.69	11.56	0.349	68.34	5.76	6.403	8.258	5.044	6.1	30.1	55.71

Bac Ninh	33	15.65	11.71	0.339	58.42	5.090	6.239	8.264	5.00083	12.55	76.47	56.36
Ben Tre	25	16.26	11.70	0.224	45.21	5.543	7.207	8.285	4.730	6.824	22.264	61.15
Binh Dinh	10	25.059	11.19	0.346	19.73	4.923	6.251	8.639	5.130	7.468	26.29	57.18
Binh Duong	88	12.24	11.80	0.301	48.29	5.44	6.509	7.650	5.118	9.688	79.143	62.29
Binh Thuan	9	13.75	10.77	0.074	30.23	5.082	6.460	8.041	5.046	8.648	28.3	54.62
Ca Mau	17	15.45	12.37	0.235	71.51	5.220	6.082	7.972	4.899	8.057	30.805	55.94
Can Tho	34	20.69	11.67	0.232	36.70	5.641	6.341	8.257	5.459	12.432	49.19	54.83
Da Nang	51	17.33	11.69	0.316	54.0063	5.862	6.586	8.899	5.680	10.113	50.41	50.73
Dong Nai	98	15.76	11.73	0.278	45.66	5.102	6.302	7.879	5.120	9.616	58.779	55.41
Dong Thap	34	15.75	11.87	0.291	29.46	5.787	7.216	8.437	5.142	8.599	34.31	58.40
Gia Lai	7	5.28	11.45	0.218	64.26	5.715	5.483	7.836	5.128	7.57	29.6	59.2
Ha Nam	12	5.61	11.65	0.599	49.42	5.094	6.192	7.998	4.714	12.535	33.35	58.43
Ha Noi	196	14.43	11.70	0.244	46.41	4.419	5.124	7.669	6.521	8.522	63.41	52.17
Hai Duong	15	19.095	11.21	0.440	31.90	5.120	6.017	7.974	5.208	9.343	34.90	59.27
Hai Phong	42	18.16	11.69	0.324	39.91	4.937	5.172	7.856	5.789	9.798	52.52	55.307
Hoa Binh	8	4.28	11.23	0.220	43.86	5.287	4.783	7.806	5.478	6.985	35.42	63.4
Hung Yen	25	16.52	12.43	0.245	57.45	4.823	6.085	7.757	4.776	9.464	31.18	59.43
Kon Tum	7	22.13	11.38	0.241	24.98	5.151	5.552	8.417	5.202	9.182	25.44	57.58
Lam Dong	14	25.40	11.58	0.179	43.79	5.548	5.815	7.631	4.959	7.358	37.9	58.1
Long An	15	14.86	12.057	0.272	61.48	5.706	6.725	8.225	5.049	8.86	36.5	58.62
Nghe An	15	18.26	11.97	0.426	61.67	4.904	4.900	8.323	5.581	7.312	22.65	60.62
Ninh Binh	4	14.14	11.79	0.060	26.92	5.431	5.874	8.129	4.601	6.94	35.87	61.37
Phu Tho	10	21.44	12.13	0.357	55.75	4.979	5.640	8.353	5.682	6.566	28.3	61.08
Quang Nam	10	17.21	11.21	0.323	45.69	5.825	6.538	8.619	5.127	12.492	27.85	56.14
Quang Ninh	22	10.99	11.73	0.459	64.56	5.0036	6.397	8.452	5.510	8.981	66.18	56.44

Soc Trang	10	15.55	12.22	0.173	67.52	5.663	6.952	8.346	4.493	8.541	23.35	54.27
Son La	5	31.33	11.70	0.390	31.30	4.999	5.498	7.961	5.780	8.306	27.16	62.5
Thanh Hoa	14	12.71	11.58	0.392	43.48	5.203	5.379	7.933	5.779	8.652	24.97	61.87
Tp HCM	393	15.20	11.85	0.271	43.40	4.771	5.647	7.575	7.190	9.099	86.014	50.91
Vinh Long	9	11.41	11.79	0.325	50.15	5.379	6.725	8.497	4.813	8.541	28.077	58.42
Yen Bai	9	30.97	11.34	0.469	55.34	4.973	6.095	8.170	4.826	7.438	21.75	61.53

6.4.2. CORRELATION MATRIX:

Table 6-3 shows the correlation matrix between the institutional, macroeconomic variables and the remaining variables in the models to establish the likelihood of multi-collinearity. From the table, none of the variables in the models have the high values of correlation coefficients. Therefore, the analysis of the correlation results in no issues of multi-collinearity.

TABLE 6-3: CORRELATION COEFFICIENTS

	Legal system	**Corruption**	**Entry Costs**	**Business Support Service**	**GDP growth**	**GDP per capita**	**Employment**
Tobin's Q	-0.054**	-0.048*	-0.082***	0.202***	0.099***	-0.037	-0.104***
Polcon	-0.0097	0.018	0.028	-0.025	0.0068	-0.108***	0.043
Polcon1	-0.010	0.025	0.018	-0.063**	-0.014	-0.115	0.083**
Polcon2	0.062**	0.081***	0.050*	-0.062**	-0.019	-0.115***	0.043
Polcon3	-0.022	0.015	-0.0036	0.0045	0.041	-0.028	-0.043
Polcon4	-0.051*	0.030	0.019	-0.023	-0.014	-0.106***	-0.0015
PCstrength	-0.037	0.014	0.0047	-0.0068	0.013	-0.081***	-0.0058
Ratio of Polcon	0.0095	-0.0036	0.048*	0.026	0.028	-0.089***	-0.046*
CEO Duality	-0.0037	0.118***	0.012	-0.111***	0.060**	-0.136***	0.025
Ln(board Size)	-0.0092	-0.0056	-0.012	0.020	-0.052*	0.0047	-0.0021
Top1	0.025	-0.030	0.060**	-0.027	-0.037	-0.048*	0.014

Top25	0.0092	0.034	0.050*	-0.014	-0.020	0.045	0.0076
Ln(firm age)	-0.0063	-0.127***	0.028	0.0053	-0.088	0.104***	-0.052*
Tangibility	-0.017	0.108***	0.028	-0.062**	0.078***	-0.091***	0.096***
Leverage	0.024	0.047*	0.060**	-0.115***	-0.050*	-0.040	0.062**
Firm Size	-0.0053	-0.033	-0.016	0.025	-0.077***	0.069**	-0.015

Additionally, the outcomes from VIF show that none of the models has the values higher 10, and hence the problem of multi-collinearity does not exist in any of them. The further test conducted demonstrates the presence of heteroscedasticity as a major concern in the application of the regression analysis. In the Wooldridge test, on the other hand, there is an issue of auto-correlation. As a result, clustering of standard errors is adopted at the firm-level to control for heteroscedasticity and serial correlation.

6.5. EMPIRICAL RESULTS:

Table 6-4 shows the main regression results for models 6.1, 6.2, 6.3 and 6.4:

TABLE 6-4: MAIN REGRESSION RESULTS

	Model 6-1	**Model 6-2**	**Model 6-3**	**Model 6-4**
VARIABLES	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**
Polcon	**-0.104****	**-0.095****	**-0.106****	**-0.095****
	(0.045)	(0.045)	(0.046)	(0.045)
Legal	**-0.044****			
	(0.018)			
Corruption		**-0.022**		
		(0.020)		
Entry			**0.000023**	
			(0.021)	
Business Support Services				**-0.0032**
				(0.021)
Polcon*Legal	**0.044****			

	(0.018)			
Polcon*Corruption		**0.045****		
		(0.020)		
Polcon*Entry			**0.017**	
			(0.014)	
Polcon*Business Support Services				**-0.029**
				(0.019)
CEO duality	**-0.060***	**-0.058***	**-0.059***	**-0.061***
	(0.035)	(0.035)	(0.035)	(0.034)
Ln(boardsize)	**0.134*****	**0.134*****	**0.133*****	**0.139*****
	(0.041)	(0.040)	(0.041)	(0.042)
Top1	**-0.00022**	**-0.0004**	**-0.00036**	**-0.00023**
	(0.001)	(0.001)	(0.0011)	(0.0011)
Top25	**0.0018**	**0.0015**	**0.0017**	**0.0017**
	(0.0013)	(0.0013)	(0.0013)	(0.0013)
Firm size	**0.239*****	**0.246*****	**0.242*****	**0.232*****
	(0.085)	(0.085)	(0.087)	(0.087)
Leverage	**0.0084**	**-0.0016**	**0.0054**	**0.00010**
	(0.103)	(0.105)	(0.103)	(0.103)
Tangibility	**-0.0007**	**0.0024**	**-0.0050**	**-0.024**
	(0.106)	(0.107)	(0.108)	(0.108)
ROE	**0.0089*****	**0.0088*****	**0.0089*****	**0.0089*****
	(0.0012)	(0.0012)	(0.0012)	(0.0012)
Ln(Firm Age)	**-0.224***	**-0.203***	**-0.227***	**-0.244****
	(0.119)	(0.120)	(0.120)	(0.117)
GDP percapita	**0.00015**	**0.000085**	**0.00028**	**-0.00024**
	(0.0014)	(0.0013)	(0.0014)	(0.0014)
GDP growth	**0.0098***	**0.0087***	**0.0087**	**0.010***
	(0.0053)	(0.0052)	(0.0054)	(0.0054)

Employment	**0.0083**	**0.0085**	**0.0076**	**0.0081**
	(0.0083)	(0.0082)	(0.0084)	(0.0082)
Constant	**-1.365**	**-1.476**	**-1.317**	**-1.174**
	(1.070)	(1.066)	(1.078)	(1.054)
Firm-fixed	Yes	Yes	Yes	Yes
Year-fixed	Yes	Yes	Yes	Yes
Observations	1,296	1,296	1,296	1,296
Number of firms	172	172	172	172
Within R-squared	**0.411**	**0.411**	**0.401**	**0.411**

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

The results in Table 6-4 indicate the different roles of political connection during different stages of regional institutional development in the sample of listed manufacturing companies in Vietnam. More specifically, the findings show the contingent role of political connection during the development of the legal system, and the varying levels of corruption, but also the ambiguous role of political connection when entry costs are less common and business support services are of greater efficiency. In particular, the finding in model 6-1 suggests that the moderating effect of the legal system on the relationship between political connection and firm performance is positive. The coefficients indicate that politically connected companies obtain on average a 4.4% higher Tobin's Q than unconnected companies in provinces characterised by better legal systems. Therefore, Hypothesis 6.1 is supported. The findings from this chapter are in line with those of Brockman et al. (2013), demonstrating that the role of political connection is driven by the home country's institutional environment in which the politically connected companies are located. However, unlike Brockman et al. (2013), the performance effect of political connection in this chapter is shown to be positively driven by the development of the legal system. It is assumed that a stronger legal system contributes to prevention of the rent-seeking incentives of politically connected board of directors or supervisory board members at the expense of firm performance, forcing them to concentrate on the value maximisation goals of their company. In addition, the study of Brockman et al. (2013) does not include Vietnam in the research sample, and their research findings may not be generalisable to the Vietnam's case.

In addition, this finding contradicts that of Zhou (2014), supporting the substitution role of political connection in the face of the development of legal institutions. Using institutional logic, Zhou (2014) offers two different perspectives on the role of political connection in emerging countries. The first focuses on the substitution effect for political connection, in which entrepreneurs may perceive the role of political connection to be less essential for property rights protection in the improvement of legal institutions. Moreover, regarding new cases of infringement, entrepreneurs may tend to deal with these more through the improvement of legal institutions than through political connections. The rationale for this is that the former approach is less expensive and more effective (Shleifer & Vishny, 1994; Siegel, 2007). The second perspective is defined as the complementary view, and shows that political connection and legal institutions are not substitutable. In particular, ties to political power are recognised as a source of advantage in resolving commercial disputes due to the long-existing or newly emerged political markets that support resource distribution and problem solving via political power, in addition to the alternative approach of deploying legal institutions (Boisot & Child, 1996). As a result, following the findings of Chapter 5 and using the contingency view together with the resource-based viewpoint, it is clear that the more stringent legal institutions contribute to reshaping the role of political connection, which is shown to have been transformed from value-deteriorating to value-supporting in this chapter.

One further institutional indicator is the level of provincial corruption. The findings from model 6-2 demonstrate that the joint effect of political connection and the regional level of corruption on firm performance is positive (b=0.045). Therefore, Hypothesis 6.2 is confirmed, showing that the presence of politically connected board of directors and supervisory board member has a positive effect on firm performance when there are low levels of corruption. The positive coefficient of interaction between political connection and level of corruption might extend the findings of Brockman et al. (2013), who offered two different viewpoints of the role of political connection under the different quality of institutional environments. The first viewpoint is mainly related to the positive effect of political connection. More specifically, the highly-corrupt settings enable companies to seek political connections to secure access to resources and critical information as they often bribe politicians to reduce various redundant administrative and regulatory burdens (Shleifer & Vishny, 1994). The second viewpoint concentrates on the negative effect of political connection, as a highly corrupt environment provides politicians with more rent-seeking opportunities to extract the resources from firms, which in turn is detrimental to firm performance. However, it is argued that when the legal system is more developed and the extent of corruption is lower, the role of political connection becomes different (Domadenik et al., 2015; Ferris et al., 2016).

Specifically, the findings from this chapter lead to the conclusion that local anti-corruption efforts serve as a warning sign for politically connected directors with highly corrupt incentives. Moreover, the value-creating role of political connection is more pronounced when provincial authorities attempt to inhibit corrupt behaviour by bureaucrats, as demonstrated in Chapter 5. Therefore, political connection might become a useful intangible asset to boost firm value when corrupt government officials are closely monitored or arrested. This finding also contributes to the studies of Hung *et al.* (2017) and Xu (2018), showing that the provincial level of corruption has a significant influence on the role of political connection. However, different from Hung *et al.* (2017) and Xu (2018), who use one dummy variable defined as a proxy for the enactment of anti-corruption regulation, this study is based on one index that measures the level of corruption in Vietnamese provinces.

In relation the joint effect of political connection and the level of entry costs, there is an uncertain finding on how these two factors interactively influence firm performance; specifically, the effect is statistically insignificant. The finding does not confirm

Hypothesis 6.3, which proposes that the political connection improves firm performance in provinces with lower entry costs. In particulalr, it is shown that politically connected companies might not enjoy any competitive business advantages in the face of different levels of market entry costs. This finding does not conform to the empirical evidence found in the study by Chen et al. (2014), which specifies that companies with political connections play a much more important role in influencing firm performance, accompanied by their high involvement in high-barrier industries. The above findings also give rise to the notion that companies in general, and market investors in particular, should pay less attention to the appointment of politically connected board of directors or supervisory board members when companies seek to make investments in or expand their operations into the provinces in Vietnam. The ambiguity of the role of political connection in helping companies to confront the barriers of market entry may originate from the radical reforms in the business environment. One of these reforms is the reduction in the regulatory barriers towards the market entry of new companies (USAID et al. 2016). Because of this, companies might not need to establish political connection to reduce market entry barriers (Boubakri et al., 2008). However, one striking difference between this chapter and the study of Chen et al. (2014) is the measurement of entry barriers. Whilst this chapter uses the index of entry barriers in a province, Chen et al. (2014) used an entry barrier dummy variable defined as the firm's industry amongst the traditional ones monopolised by SOEs. Therefore, it is argued that the use of one index to measure entry barriers in one province is broader in relation to the meaning of institutional reform than the measurement of using the definition of one industry monopolised by SOEs (Zhou, 2014; Sun et al., 2016). The argument on the insignificant role of political connection in reducing the burden of market entry might be justified by the studies of Yao et al. (2018), who argues that compared to state ownership as a more direct and closer tie to the state, political connections characterised by entrepreneurs' political identity play a weak role in helping companies to reduce entry barriers, which indirectly weakens their competitive advantage in the search for resources provision. This finding is also echoed by the argument of Boubakri et al. (2008), that political connection is not a decisive determinant influencing the market entry of companies in countries with higher entry barriers. However, the research of Boubakri et al. (2008) does not include Vietnam in their country sample, because of its data unavailability in their research period. Therefore, this study also complements that of Boubakri et al. (2008) by including Vietnam and using the available data on entry barriers in Vietnamese provinces from 2007 onwards.

Likewise, there is also a statistically insignificant finding on the interactive effect of business support services and political connection on firm performance. Accordingly, Hypothesis 6.4 is not confirmed, which suggests that there is a positive effect of political connection on firm performance in provinces with a low quality of business support service. This finding is not in line with the empirical perspective of Zhao et al. (2016) which claim that the impact of political connection on developmental resources weakens during the advancement of business support services. This reveals that the effect of the presence of politically connected board of directors or supervisory board members is not contingent upon the development of business intermediaries, and that the value of political connection is independent of advances in such institutions. This could be because the uncertainty or risk in the business environment in Vietnam makes the intermediary institutions such as financial organisations, banks and so forth, reliant upon state-owned enterprises or politically connected companies as their main clients because of the absolute supports given to them by the government (Malesky & Taussig, 2009). Taking the example of bank loans, Vietnamese commercial banks are inclined to grant more of these to politically connected companies because of their competitive advantages derived from governmental supports (Malesky & Taussig, 2009). Moreover, the government is willing to rescue such firms in cases of operational failure (Cheng & Leung, 2016). Otherwise, companies that have weak political relationships may find it difficult to attract loans or support from the intermediary institutions. Based on this, advances in intermediary institutions have little effect on the role of political connection because such development is insufficient to substitute for, or to influence, its role. However, in order to create a larger picture of the joint effect of political connection and business support service, a larger sample of firms, including other industries and longer research time periods, could be employed in future research.

In summary, the effect of political connection on firm performance is conditional on regional institutional development, but not all regional institutional indicators. For example, political connection benefits the performance of listed manufacturing companies in Vietnam in provinces characterised by better legal systems and strong anti-corruption bodies at the regional level. In contrast, the effect of political connection is not conditional upon the development of business support services and the level of entry costs in the province in which the firm is situated.

Regarding the control variables in all the models, the presence of CEO duality is detrimental to firm performance. Therefore, this finding is consistent with the theoretical agency framework. In addition, the companies utilise the talented resources of board directors, which is conductive to a company's operational efficiency. Taking the logarithm of firm sales as a proxy for firm size, firms with a high volume of sales have better performance than those with a low volume. These findings from models 6-1 to 6-4 reveal that return on equity may be a predictive indicator for the market performance of a firm when high return on equity results in high Tobin's Q. Similar to the effect of the natural logarithm of firm age on firm performance seen in Chapter 5, the effect in Chapter 6 remains negative. For provincial-level control variables, only the GDP growth variable in a province positively drives firm performance, thereby showing that firms do in fact enjoy more economic opportunities in provinces that are economically healthier (Zhou, 2014).

6.5. THE ROBUSTNESS CHECKS:

6.5.1. TESTING FOR ENDOGENEITY ISSUES:

The literature on the relationship between institutions and firm performance could be explained by the fact that the firm growth may influence the quality of local governance (Nguyen & Canh, 2020). Specifically, provinces with an effective system of governance may have higher levels of entrepreneurial performance, and vice versa (Wennberg et al., 2013). More importantly, when a province is characterised by high levels of entrepreneurial capital and firm growth, it is more likely to strengthen institutions being conducive to entrepreneurial performance (Nguyen & Canh, 2020). In particular, well-performing firms are likely to help the provincial government to achieve its economic and societal goals; for instance, they contribute greatly to provincial GDP growth by paying the very high levels of tax. Additionally, they also provide a large amount of employment to facilitate their operations, which may help to reduce the level of unemployment. In exchange, the provincial authorities may introduce developmental policies and institutions favouring their operations (VCCI et al., 2017). In order to address this endogeneity problem, this study therefore proposes the use of the two-step system GMM technique.

Table 6-5 shows the results of the two-step system GMM estimation as a robustness check for all firm fixed-effect baseline models. In this chapter, this approach employs the first lag of Tobin's Q and reports the p-values of ARtest(1), ARtest(2), the Hansen test of the joint validity of instruments, and the number of instruments. Across all the models of the two-step system GMM, there exists first-order autocorrelation but no second-order autocorrelation. The p-values of the Hansen test in all the models are insignificant, which emphasises the validity of the instruments, whereas the number of instruments in all the models is lower than the number of groups. Generally speaking, it is observed that the conditions of all the two-step system GMM models in Table 6-5 are satisfied. All the GMM models also include firm, sectoral, year, and provincial dummies to control for unobservables at firm-, sectoral-, year-, and provincial- level respectively.

Regarding the interactions of political connection and different institutional indicators, the results from the two-step system GMM technique remain constant compared to the firm fixed-effect baseline models, such as the different interactions of political connection and the legal system, corruption and business support services. Overall, the endogeneity issue does not exist in the firm fixed-effects models with the three institutional indicators listed above. Conversely, a difference in empirical results is found between firm fixed-effects and two-step system GMM techniques regarding the interaction between political connection and entry costs. Despite the positive joint effect between between the two such aspects, statistically significant results are found in the two-step system GMM approach, while they are statistically insignificant in the firm fixed-effects estimations. Therefore, this finding should be interpreted with caution. The finding from the two-step system GMM technique comcerning the interactive effect of political connection and entry costs on firm performance contrasts with Hypothesis 6.3, which proposes that the effect of political connection on firm performance is positive in regions with high levels of entry costs. This indicates that political connection is beneficial for firm performance in provinces with low entry barriers.

TABLE 6-5: TWO-STEP SYSTEM GMM ESTIMATION OF THE INTERACTIONS BETWEEN POLITICAL CONNECTIONS AND INSTITUTIONAL INDICATORS:

	Model 6-5	**Model 6-6**	**Model 6-7**	**Model 6-8**
VARIABLES	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**
L.Tobin's Q	**0.457*** **	**0.413*** **	**0.606*** **	**0.694*** **
	(0.067)	(0.149)	(0.143)	(0.093)
Polcon	**-0.107**	**-0.025**	**-0.067**	**0.085**
	(0.086)	(0.125)	(0.099)	(0.138)
Legal	**-0.056**			
	(0.038)			
Corruption		**0.080**		
		(0.060)		
Entry Costs			**-0.019**	
			(0.031)	
Business Support Services				**-0.026**
				(0.040)
Polcon*Legal	**0.053***			
	(0.028)			

Polcon*Corruption		**0.078****		
		(0.036)		
Polcon*Entry Costs			**0.046***	
			(0.025)	
Polcon*Business Support Service				**-0.010**
				(0.034)
CEO Duality	**-0.029**	**-0.019**	**-0.043****	**-0.031**
	(0.030)	(0.060)	(0.019)	(0.030)
lnboardsize	**0.116**	**0.272**	**0.255**	**0.149**
	(0.100)	(0.172)	(0.162)	(0.137)
top1	**-0.00043**	**-0.0010**	**0.0015**	**-0.0022**
	(0.0018)	(0.0027)	(0.0020)	(0.0034)
top25	**0.0021**	**0.0019**	**0.0025**	**0.0030**
	(0.0017)	(0.0026)	(0.0019)	(0.0018)
Ln(firm age)	**0.027**	**0.071**	**-0.015**	**0.037**
	(0.040)	(0.061)	(0.032)	(0.032)
tangibility	**0.297**	**0.793**	**0.442**	**0.035**
	(0.381)	(0.690)	(0.381)	(0.309)
leverage	**-0.140**	**0.080**	**0.292**	**-0.071**
	(0.284)	(0.271)	(0.264)	(0.330)
roe	**0.0065****	**0.0083****	**0.0057****	**0.0075*****
	(0.0026)	(0.0043)	(0.0023)	(0.0027)
Firm size	**0.152**	**-0.031**	**-0.104**	**0.097**
	(0.149)	(0.228)	(0.175)	(0.160)
GDP growth	**-0.0023**	**-0.0049**	**-0.0039**	**-0.0066**
	(0.0097)	(0.021)	(0.012)	(0.017)
GDP per capita	**0.0015**	**0.00092**	**-0.00073**	**0.0012**

	(0.0016)	(0.0025)	(0.0015)	(0.0020)
Employment	**0.044**	**0.027**	**-0.027**	**0.032**
	(0.027)	(0.034)	(0.037)	(0.032)
Constant	**-4.652***	**-2.215**	**1.335**	**-3.696**
	(2.381)	(3.811)	(3.560)	(3.140)
Firm fixed	Yes	Yes	Yes	Yes
Sectoral fixed	Yes	Yes	Yes	Yes
Provincial fixed	Yes	Yes	Yes	Yes
Year fixed	Yes	Yes	Yes	Yes
Observations	1,127	1,127	1,127	1,127
Number of groups (firm)	172	172	172	172
Number of Instruments	101	92	98	99
ARtest (1)	0.000	0.001	0.000	0.000
ARtest (2)	0.110	0.245	0.526	0.194
Hansen J Test (Over-identifying restrictions)	0.333	0.970	0.973	0.628

Standard errors in parentheses. Windmeijer's finite-sample correction is applied to two-step estimations.
*** p<0.01, ** p<0.05, * p<0.1

6.5.2. INTERACTIONS BETWEEN DIFFERENT TYPES AND MEASUREMENTS OF POLITICAL CONNECTION AND REGIONAL LEGAL SYSTEMS:

Table 6-6 first shows the regression outcomes for the impact of different types of political connections on the performance of listed companies during the regional institutional development process. Similar to the effect of political connection of all types, the outcomes from the interactive terms of the various categories of political connection and regional legal systems remain positive, apart from the interactive influence of polcon4 and the legal system. Specifically, the joint effect of polcon2 and the legal system is the highest overall, at 0.054. The interactive term of polcon3 and regional legal system has the second highest coefficient, at 0.036. Finally, the joint effect of polcon1 and regional legal system has the lowest coefficient value of 0.034.

Therefore, under the combined contingency-resource dependency framework, a better quality of legal system contributes to the influence on the roles played by the different types of political connection. In particular, the findings reaffirm that more stringent legal systems are a warning sign for politically connected directors who do not have the incentive to act in the best interests of their companies. Moreover, the findings also show that the presence of types I, II and III of political connection plays a resource-providing role for companies facing continuing improvement in regional legal systems. More specifically, former governmental officials can utilise their knowledge or non-public information regarding the specific determinants most likely to influence the regulatory processes. Consequently, this helps firms to avoid delayed demands for more information and to save time in processing legal affairs (Faccio, 2010; Ferris et al., 2016). Such findings support the separate hypotheses associated with the resource-provisionary roles of types I, II, and III of political connection when regional legal systems are continually improved. On the other hand, the impact of Communist Party membership on the board is not significant for companies in the varying legal environment quality. This explains that such membership can simply sustain the political ideology in the company rather than provide different legally strategic advice to the company.

In addition, the study also probes into the issue of how multiple political connections influence the performance of the listed companies when the quality of regional legal systems improves. In particular, having multiple political connections is positively associated with firm performance during the development of regional legal system. Overall, the moderating effect of legal systems is 0.021, indicating that the diversity of political connections will bring a wider range of resources to companies, which in turn will lead to improved firm performance. Unlike Chapter 5, which discusses the negative effect of the strength of political connection on the performance of listed companies, the positive interaction between this strength and the regional legal system emphasises that better quality of regional legal systems is conducive to the usefulness of having multiple political connections. Such a finding complements the study of Chen *et al.* (2017). However, while Chen *et al.* (2017) claim that retaining many types of political connection in the firm results in both helping-hand and grabbing-hand effects on the performance of companies headquartered in weak legal environment, this study only covers the resource-providing role of political connection strength during regional legal system development. Contrary to Chen *et al.* (2017), this study fails to seek a non-linear effect of multiple political connections on the performance of listed companies in improved legal environments. Relevant to the Vietnamese context, this finding also complements the study of Malesky & Taussig (2009), although they did not take legal system development into account in re-examining the effect of multiple political connections, only using the simple headcount method to calculate the strength of political connection. By considering the improvement in legal institutions and the construction of the strength of political connection based on the highly centralised administrative rankings, this study aims to provide new insightful findings on how institutional development influences the effect of strength of political connection on firm performance. However, the study does not ascertain the joint effect of the ratio of political connection and regional legal system on firm performance, which indicates that a high level of concentration of political connection may not help a firm to obtain a legal edge at the provincial-level.

TABLE 6-6: PERFORMANCE EFFECTS OF DIFFERENT TYPES AND MEASUREMENTS OF POLITICAL CONNECTION DURING REGIONAL LEGAL SYSTEM DEVELOPMENT

	Model 6-9	Model 6-10	Model 6-11	Model 6-12	Model 6-13	Model 6-14
VARIABLES	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**
Polcon1	**-0.104*** **					
	(0.037)					
Polcon2		**-0.010**				
		(0.119)				
Polcon3			**0.055**			
			(0.051)			
Polcon4				**0.022**		
				(0.045)		
PCstrength					**-0.057***	
					(0.028)	
Ratio of Polcon						**-0.137**
						(0.115)
Legal	**-0.036****	**-0.014**	**-0.012**	**-0.041*** **	**-0.012**	**-0.012**
	(0.018)	(0.014)	(0.014)	(0.010)	(0.014)	(0.014)
Polcon1*Legal	**0.034***					
	(0.018)					
Polcon2*Legal		**0.054****				
		(0.022)				
Polcon3*Legal			**0.036****			
			(0.015)			
Polcon4*Legal				**-0.014**		
				(0.020)		
PCstrength*Legal					**0.021****	
					(0.0092)	

Ratio of Polcon*Legal						**-0.042**
						(0.061)
CEO duality	**-0.060***	**-0.059**	**-0.059**	**-0.049**	**-0.063***	**-0.060***
	(0.035)	(0.036)	(0.036)	(0.033)	(0.036)	(0.036)
Ln(boardsize)	**0.140*****	**0.128*****	**0.125*****	**0.118****	**0.138*****	**0.121*****
	(0.041)	(0.042)	(0.042)	(0.049)	(0.040)	(0.043)
top1	**-0.00024**	**-0.00046**	**-0.00044**	**0.00018**	**-0.00031**	**-0.0004**
	(0.0010)	(0.0011)	(0.0011)	(0.00091)	(0.0011)	(0.0011)
top25	**0.0017**	**0.0017**	**0.0016**	**0.0025****	**0.0020**	**0.0017**
	(0.0013)	(0.0013)	(0.0013)	(0.0012)	(0.0013)	(0.0013)
Firm size	**0.237*****	**0.226*****	**0.236*****	**0.166*****	**0.234*****	**0.227*****
	(0.087)	(0.085)	(0.086)	(0.049)	(0.084)	(0.086)
Leverage	**0.010**	**0.0013**	**0.0010**	**-0.154**	**0.021**	**0.0096**
	(0.103)	(0.106)	(0.106)	(0.096)	(0.105)	(0.106)
Tangibility	**-0.0057**	**-0.034**	**-0.027**	**-0.120**	**-0.019**	**-0.033**
	(0.106)	(0.107)	(0.108)	(0.097)	(0.106)	(0.107)
ROE	**0.0088*****	**0.0088*****	**0.0087*****	**0.011*****	**0.0088*****	**0.0089*****
	(0.0012)	(0.0012)	(0.0012)	(0.0012)	(0.0012)	(0.0012)
Ln(firm age)	**-0.228***	**-0.204***	**-0.204***	**-0.013**	**-0.215***	**-0.196**
	(0.119)	(0.121)	(0.121)	(0.035)	(0.119)	(0.120)
GDP growth	**0.010***	**0.0099***	**0.0094***	**0.012*****	**0.010***	**0.010***
	(0.0053)	(0.0053)	(0.0054)	(0.0042)	(0.0052)	(0.0053)
GDP per capita	**0.00011**	**0.00011**	**-2.47e-06**	**-0.00054**	**0.00023**	**-0.000067**
	(0.0014)	(0.0014)	(0.0014)	(0.00062)	(0.0014)	(0.0014)
Employment	**0.0076**	**0.0084**	**0.0079**	**-0.014*****	**0.0082**	**0.0079**
	(0.0084)	(0.0083)	(0.0081)	(0.0046)	(0.0083)	(0.0081)
Constant	**-1.320**	**-1.323**	**-1.397**	**-0.452**	**-1.406**	**-1.324**
	(1.069)	(1.079)	(1.070)	(0.592)	(1.071)	(1.080)
Firm-fixed	Yes	Yes	Yes	No	Yes	Yes

Year-fixed	Yes	Yes	Yes	No	Yes	Yes
Observations	1,296	1,296	1,296	1,296	1,296	1,296
Number of firm	172	172	172	172	172	172
Within R-squared	**0.411**	**0.402**	**0.402**	**0.175**	**0.408**	**0.402**

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

6.5.2. INTERACTIONS BETWEEN DIFFERENT TYPES AND MEASUREMENTS OF POLITICAL CONNECTION AND LEVELS OF CORRUPTION:

Table 6-7 shows the regression outcomes for the influence of various types, strengths and ratios of political connection on the Tobin's Q of listed companies in the selected sample and in regions with varying levels of corruption. In model 6-15, there is only the moderating effect of corruption on the association between polcon1 and Tobin's Q at a level of 0.054, which is still in favour of Hypothesis 6.2. Similar to the findings from political connection of all types, the finding also contributes to the study of Brockman et al. (2013) when using a narrower definition of political connection. Compared to other types of political connection, the level of corruption will only have a significant impact on the role of officials of government, military, procuracy, and the members of the national and provincial congresses on boards. This explains that while the role of these officials and members exhibited grabbing-hand characteristics in Chapter 5, the level of corruption modifies this role. Unlike Chapter 5, therefore, the presence of polcon1 plays a role of resources provision for companies when the regional level of corruption is low, which favours the separate hypothesis of the resource-provisionary role of hiring erstwhile or current government officials or individuals. Generally, this finding is consistent with that of the joint effect of polcon and regional legal system on firm performance. Based on several previous studies, legal institutions and the level of corruption are the main institutional indicators as proxies for the quality of the institutional environment (Boubakri et al. 2008; Faccio 2010; Brockman et al. 2013). In particular, settings with a well-functioning legal regime often have a low level of corruption, and vice versa. This is because fair application of legal regimes will prevent politicians from abusing their powers for their individual benefits (Brockman et al. 2013; USAID et al. 2016). No significant evidence was found of the joint effects of other types of political connection and levels of corruption. This suggests that the level of local anti-corruption efforts is not targeted at modifying the role of lecturers or officials in state-owned academic institutions, managers or members of various industry associations, or Communist-Party members. In reality, corruption scandals often have their roots in governmental officials exploiting companies for personal gains (Vu et al., 2015).

Likewise, the interactive term of corruption and strength of political connection is positive (b=0.019), and Hypothesis 6.2 continues to be supported when multiple political connections are employed. Consequently, having such multiple connections is also beneficial for the performance of listed companies in less corrupt provinces. Conforming to the unified framework of contingency and resource provision, this finding helps understanding that although multiple political connections in firms were shown to be detrimental to firm performance in Chapter 5, the study also supports the beneficial aspect of multiple political connections on boards when the corrupt incentives of government officials are curbed. This finding also contributes to the study of Chen *et al.* (2017), in that not only does the regional legal system modifies the role of political connection strength, but also that the level of corruption transforms the detrimental role of such strength into a useful role. Furthermore, the finding also supports the suggestion of Malesky & Taussig (2009) that the government should promote regional anti-corruption institutions and the quality of legal systems at the provincial level in order to improve the efficiency of governmental officials in supporting entrepreneurial activities. In addition, the study has not discovered any interactive effect of the ratio of political connection and level of corruption on firm performance. As a result, the concentration of political connections may not result in any protection against corurpt harrassment from provincial government officials.

TABLE 6-7: THE PERFORMANCE EFFECTS OF DIFFERENT TYPES AND MEASUREMENTS OF POLITICAL CONNECTION ON THE VARYING LEVELS OF CORRUPTION:

	Model 6-15	Model 6-16	Model 6-17	Model 6-18	Model 6-19	Model 6-20
VARIABLES	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**
Polcon1	**-0.097****					
	(0.035)					
Polcon2		**0.045**				
		(0.115)				
Polcon3			**0.051**			
			(0.049)			
Polcon4				**-0.017**		
				(0.059)		
PCstrength					**-0.056****	
					(0.028)	
Ratio of Polcon						**-0.142**
						(0.118)
Corruption	**-0.026**	**0.0093**	**0.0048**	**0.013**	**0.0076**	**0.0078**
	(0.019)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
Polcon1*Corruption	**0.054*****					
	(0.018)					
Polcon2*Corruption		**-0.063**				
		(0.041)				
Polcon3*Corruption			**0.037**			
			(0.026)			
Polcon4*Corruption				**-0.029**		
				(0.019)		
PCstrength*Corruption					**0.019***	
					(0.010)	

Ratio of Polcon*Corruption						**0.050**
						(0.061)
CEO duality	**-0.060***	**-0.055**	**-0.054**	**-0.056**	**-0.060***	**-0.057**
	(0.035)	(0.036)	(0.036)	(0.036)	(0.035)	(0.036)
Lnboardsize	**0.144*****	**0.125*****	**0.122*****	**0.126*****	**0.140*****	**0.119*****
	(0.040)	(0.042)	(0.042)	(0.043)	(0.040)	(0.043)
top1	**-0.00034**	**-0.00038**	**-0.00033**	**-0.00040**	**-0.00048**	**-0.00039**
	(0.0010)	(0.0011)	(0.0011)	(0.0011)	(0.0011)	(0.0011)
top25	**0.0013**	**0.0017**	**0.0016**	**0.0017**	**0.0017**	**0.0017**
	(0.0012)	(0.0013)	(0.0013)	(0.0013)	(0.0013)	(0.0013)
Firm size	**0.245*****	**0.233*****	**0.239*****	**0.223*****	**0.242*****	**0.236*****
	(0.084)	(0.086)	(0.086)	(0.085)	(0.085)	(0.086)
Leverage	**0.0024**	**-0.022**	**0.0061**	**0.017**	**0.014**	**0.0058**
	(0.105)	(0.110)	(0.106)	(0.105)	(0.106)	(0.106)
Tangibility	**-0.00021**	**-0.029**	**-0.033**	**-0.031**	**-0.017**	**-0.028**
	(0.107)	(0.109)	(0.107)	(0.107)	(0.107)	(0.108)
Roe	**0.0086*****	**0.0087*****	**0.0088*****	**0.0089*****	**0.0088*****	**0.0087*****
	(0.0011)	(0.0012)	(0.0012)	(0.0012)	(0.0012)	(0.0012)
Ln(firm age)	**-0.191**	**-0.202***	**-0.202***	**-0.203***	**-0.199***	**-0.203***
	(0.119)	(0.120)	(0.121)	(0.120)	(0.120)	(0.120)
GDP growth	**0.0092***	**0.009***	**0.0085**	**0.0085**	**0.0088***	**0.0087**
	(0.0051)	(0.0053)	(0.0054)	(0.0053)	(0.0052)	(0.0053)
GDP per capita	**-0.000013**	**0.00027**	**0.00014**	**0.00041**	**0.00023**	**0.00013**
	(0.0013)	(0.0014)	(0.0014)	(0.0014)	(0.0014)	(0.0014)
Employment	**0.0078**	**0.0080**	**0.0079**	**0.0082**	**0.0081**	**0.0086**
	(0.0083)	(0.0079)	(0.0081)	(0.0082)	(0.0083)	(0.0081)
Constant	**-1.479**	**-1.367**	**-1.421**	**-1.257**	**-1.506**	**-1.414**
	(1.057)	(1.088)	(1.078)	(1.075)	(1.068)	(1.084)

Firm fixed	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,296	1,296	1,296	1,296	1,296	1,296
Number of firm	172	172	172	172	172	172
Within R-squared	**0.415**	**0.402**	**0.402**	**0.402**	**0.408**	**0.402**

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

6.5.3. INTERACTIONS BETWEEN DIFFERENT TYPES AND MEASUREMENTS OF POLITICAL CONNECTION AND BUSINESS SUPPORT SERVICES AT THE REGIONAL LEVEL:

Table 6-8 shows the regression results for the moderating effect of business support services on the nexuses between different types, strengths and ratios of political connection and firm performance in the selected study sample. These results show no joint effects of business support services and different categories, strengths or ratios of political connection on firm performance, apart from polcon2. Therefore, Hypothesis 6.3 remains unconfirmed. Different to the two previous institutions, this underlines that the development of business support service does not seems to influence the value of many types, strengths or concentrations of political connection. In line with the findings of the main analysis, this outcome is also in contrasts with the empirical results of Zhao et al. (2016), which indicated that the role that the categories, strengths and concentrations of political connections play is still not contingent upon the development of business support services. In other words, this shows that the different components of political connection in firms play no specific roles in helping companies to improve their performance when they can enjoy more opportunities from the development of business intermediaries. From the perspective of market investors, they cannot expect the development of business intermediaries to be a driving force in reducing the influential role of political connection in the development of regional legal institutions and local anti-corruption institutions. For the the second type of political connection, the finding extends the study of Zhou (2014) by empirically contributing to understanding of the substitution view between political connection and the development of intermediary business support institutions. In particular, the finding is in line with Zhao and Lu (2016) and shows that managers or members of various industry associations play a less important role in influencing firm operations when business support services continue to improve in a province. In other words, provinces with superior quality of business support services create a more transparent environment for information spread, and have a more developed financial system. Therefore, the need for managers or members of various industry associations to call for the improvement of intermediary institutions will be not an important issue. This finding is also not consistent with the separate hypothesis on the resource-providing role of membership of industry associations.

TABLE 6-8: PERFORMANCE EFFECTS OF DISTINCT TYPES AND MEASUREMENTS OF POLITICAL CONNECTION DURING DEVELOPMENT OF THE QUALITY OF REGIONAL BUSINESS SUPPORT SERVICES

	Model 6-21	**Model 6-22**	**Model 6-23**	**Model 6-24**	**Model 6-25**	**Model 6-26**
VARIABLES	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**
Polcon1	**-0.103*** **					
	(0.037)					
Polcon2		**-0.0010**				
		(0.108)				
Polcon3			**0.052**			
			(0.049)			
Polcon4				**-0.029**		
				(0.058)		
PCstrength					**-0.056***	
					(0.029)	
Ratio of Polcon						**-0.116**

						(0.120)
Business support service	**-0.022**	**-0.024**	**-0.026***	**-0.031***	**-0.026**	**-0.026***
	(0.020)	(0.015)	(0.015)	(0.016)	(0.015)	(0.015)
Polcon1*Business support service	**-0.0077**					
	(0.018)					
Polcon2*Business support service		**-0.068***				
		(0.039)				
Polcon3*Business support service			**-0.0086**			
			(0.025)			
Polcon4*Business support service				**0.017**		
				(0.018)		
PCstrength*Business support service					**-0.0086**	
					(0.0099)	
Ratio of Polcon*Business support service						**-0.033**
						(0.052)
CEO duality	**-0.064***	**-0.061***	**-0.062***	**-0.061***	**-0.068***	**-0.063***
	(0.035)	(0.036)	(0.036)	(0.036)	(0.036)	(0.036)
Ln(boardsize)	**0.144*****	**0.132*****	**0.129*****	**0.128*****	**0.142*****	**0.125*****
	(0.041)	(0.042)	(0.043)	(0.043)	(0.041)	(0.044)
top1	**-0.00026**	**-0.00016**	**-0.00036**	**-0.00030**	**-0.00036**	**-0.00029**
	(0.0010)	(0.0012)	(0.0011)	(0.0011)	(0.0011)	(0.0011)
top25	**0.0015**	**0.0018**	**0.0016**	**0.0017**	**0.0019**	**0.0017**

	(0.0012)	(0.0013)	(0.0013)	(0.0013)	(0.0013)	(0.0013)
Firm size	**0.229*** **	**0.217*** **	**0.231*** **	**0.221*** **	**0.229*** **	**0.227** **
	(0.084)	(0.086)	(0.085)	(0.085)	(0.085)	(0.086)
Leverage	**0.0055**	**-0.0063**	**-0.0065**	**0.0022**	**0.016**	**0.0032**
	(0.102)	(0.105)	(0.105)	(0.107)	(0.104)	(0.105)
Tangibility	**-0.0084**	**-0.033**	**-0.029**	**-0.033**	**-0.021**	**-0.026**
	(0.108)	(0.107)	(0.108)	(0.108)	(0.108)	(0.109)
Roe	**0.0088*** **	**0.0090*** **	**0.0088*** **	**0.0089*** **	**0.0089*** **	**0.0088*** **
	(0.0012)	(0.0012)	(0.0012)	(0.0012)	(0.0012)	(0.0012)
Ln(firm age)	**-0.238** **	**-0.208* **	**-0.216* **	**-0.207* **	**-0.230* **	**-0.214* **
	(0.117)	(0.118)	(0.119)	(0.121)	(0.117)	(0.117)
GDP growth	**0.010* **	**0.010* **	**0.0096* **	**0.010* **	**0.010* **	**0.0099* **
	(0.0054)	(0.0055)	(0.0056)	(0.0054)	(0.0053)	(0.0055)
GDP per capita	**-0.00026**	**-0.00025**	**-0.00033**	**-0.00015**	**-0.00014**	**-0.00030**
	(0.0014)	(0.0013)	(0.0014)	(0.0014)	(0.0014)	(0.0014)
Employment	**0.0076**	**0.0071**	**0.0078**	**0.0080**	**0.0081**	**0.0083**
	(0.0084)	(0.0078)	(0.0081)	(0.0081)	(0.0082)	(0.0081)
Constant	**-1.129**	**-1.087**	**-1.249**	**-1.175**	**-1.155**	**-1.239**
	(1.050)	(1.070)	(1.055)	(1.056)	(0.993)	(1.068)
Firm-fixed	Yes	Yes	Yes	Yes	Yes	Yes
Year-fixed	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,296	1,296	1,296	1,296	1,296	1,296
Number of firm	172	172	172	172	172	172
Within R-squared	**0.410**	**0.405**	**0.403**	**0.404**	**0.408**	**0.404**

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

6.5.4. INTERACTIONS BETWEEN DIFFERENT TYPES AND MEASUREMENTS OF POLITICAL CONNECTION AND ENTRY COSTS AT THE REGIONAL LEVEL:

Table 6-9 shows the regression outputs for the moderating effect of regional entry costs on the associations between various types, strengths and ratios of political connection and firm performance. As evidenced in Table 6-9, the interactive terms of regional entry costs and different categories, strengths and ratios of political connection on firm performance appear to be statistically insignificant. Therefore, the findings from the robustness check continue to give no support to Chen et al. (2014) and re-affirm that the impact of political connection on firm performance is not contingent upon the different levels of regional entry costs, which does not confirm Hypothesis 6.4. Compared to all types of political connection, however, these insignificant effects do give support to the viewpoint of Boubakri et al. (2008). In other words, with the exploitation of the narrower definition of political connection, it can be repeatedly seen that the dependence on it might be not essential for entrepreneurial companies seeking opportunities for investment or market entry in a particular industry in a particular province. Therefore, companies should pay more attentions to product and technology innovation, to increased labour capacity and to improved employee capacity, rather than developing political connections (Vu et al., 2015). In doing so, they could generate more revenues and build their competitive capabilities to fight the market entry of many new competitors with cutting-edge technology (USAID et al., 2015).

TABLE 6-9: PERFORMANCE EFFECTS OF DISTINCT TYPES AND MEASUREMENTS OF POLITICAL CONNECTION DURING THE DEVELOPMENT OF ENTRY COSTS AT THE REGIONAL LEVEL:

	Model 6-27	Model 6-28	Model 6-29	Model 6-30	Model 6-31	Model 6-32
VARIABLES	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**	**Tobin's Q**
Polcon1	**-0.103*** **					
	(0.037)					
Polcon2		**0.0068**				
		(0.112)				
Polcon3			**-0.065**			
			(0.049)			
Polcon4				**0.035**		
				(0.037)		
PCstrength					**-0.057***	
					(0.029)	
Ratio of Polcon						**-0.094**
						(0.089)
Entry	**0.0045**	**0.0096**	**-0.038*** **	**-0.038*** **	**0.0095**	**-0.036*** **
	(0.021)	(0.018)	(0.010)	(0.011)	(0.018)	(0.010)
Polcon1*Entry	**0.0079**					
	(0.014)					
Polcon2*Entry		**0.026**				
		(0.016)				
Polcon3*Entry			**0.025**			
			(0.034)			
Polcon4*Entry				**0.010**		
				(0.025)		
PCstrength*Entry					**0.012**	
					(0.0079)	

Ratio of Polcon*Entry						**-0.029**
						(0.061)
CEO duality	**-0.057**	**-0.055**	**-0.046****	**-0.047****	**-0.059**	**-0.047****
	(0.035)	(0.036)	(0.023)	(0.023)	(0.036)	(0.023)
Ln(boardsize)	**0.139*****	**0.127*****	**0.122*****	**0.116*****	**0.138*****	**0.117*****
	(0.041)	(0.042)	(0.043)	(0.043)	(0.040)	(0.043)
top1	**-0.00033**	**-0.00037**	**0.00031**	**0.00022**	**-0.00038**	**0.00026**
	(0.0010)	(0.0011)	(0.00090)	(0.00090)	(0.0012)	(0.0009)
top25	**0.0016**	**0.0017**	**0.0027*****	**0.0026*****	**0.0019**	**0.0027*****
	(0.0013)	(0.0013)	(0.00089)	(0.0013)	(0.0013)	(0.00089)
Firm size	**0.240*****	**0.233****	**0.154*****	**0.157*****	**0.237*****	**0.159*****
	(0.086)	(0.087)	(0.037)	(0.037)	(0.086)	(0.037)
Leverage	**0.0093**	**-0.00026**	**-0.144*****	**-0.149****	**0.018**	**-0.143***
	(0.103)	(0.106)	(0.073)	(0.073)	(0.105)	(0.073)
Tangibility	**-0.011**	**-0.030**	**-0.121**	**-0.122**	**-0.022**	**-0.123**
	(0.108)	(0.108)	(0.078)	(0.078)	(0.107)	(0.078)
Roe	**0.0087*****	**0.0088*****	**0.011*****	**0.011*****	**0.0088*****	**0.012*****
	(0.0012)	(0.0012)	(0.00097)	(0.00097)	(0.0012)	(0.00097)
Ln(firm age)	**-0.229***	**0.0088**	**-0.018**	**-0.017**	**-0.217***	**-0.017**
	(0.086)	(0.0055)	(0.031)	(0.031)	(0.120)	(0.031)
GDP growth	**0.0091***	**0.00032**	**0.0057**	**0.0055**	**0.0090**	**0.0054**
	(0.0053)	(0.0014)	(0.0040)	(0.0040)	(0.0053)	(0.004)
GDP per capita	**0.00028**	**0.00032**	**-0.0010****	**-0.0010****	**0.00040**	**-0.0011****
	(0.0014)	(0.0014)	(0.00048)	(0.00048)	(0.0014)	(0.00048)
Employment	**0.0071**	**0.0077**	**-0.015*****	**-0.015*****	**0.0077**	**-0.016*****
	(0.0085)	(0.0082)	(0.0043)	(0.0043)	(0.0084)	(0.0043)
Constant	**-1.277**	**-1.230**	**-0.141**	**-0.174**	**-1.379**	**-0.194**
	(1.074)	(1.013)	(1.081)	(0.470)	(1.079)	(0.471)

Firm-fixed	Yes	Yes	No	No	Yes	No
Year-fixed	Yes	Yes	No	No	Yes	No
Observations	1,296	1,296	1,296	1,296	1,296	1,296
Number of firm	172	172	172	172	172	172
Within R-squared	**0.408**	**0.401**	**0.169**	**0.168**	**0.406**	**0.169**

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 6-10 shows the regression results on how the political connections and regional institutional indicators interactively influence firm performance, as tested in this chapter. In summary, in the table it can be seen that the quality of regional legal systems mainly influences the relationships between political connections and firm performance, followed by the corruption indicator. Furthermore, there is no clear evidence of the contingent value of the majority of types, strengths and ratios of political connections in the provinces in relation to the varying quality of business support services and different market entry conditions, apart from polcon2. Consequently, it can be concluded that the role of political connection is mainly driven by the legal system, which communicates the notion that the development of the legal system is the most important of all the institutional indicators (USAID et al., 2016). This assertion is also made by Shleifer & Vishny (1998) and Zhou (2014), who suggest that the protection of property rights and the stricter legal enforcement are the fundamental institutional reforms for socioeconomic development.

TABLE 6-10: EMPIRICAL RESULTS OF THE INTERACTION BETWEEN POLITICAL CONNECTIONS AND REGIONAL INSTITUTIONAL INDICATORS SHOWN IN THIS CHAPTER:

Types and Strengths of Political Connections	Regional Institutional Indicators			
	Legal System	**Anti-Corruption Institutions**	**Business Support Services**	**Entry Costs**
Polcon	Confirmed	Confirmed	Unconfirmed	Unconfirmed
Polcon1	Confirmed	Confirmed	Unconfirmed	Unconfirmed
Polcon2	Confirmed	Unconfirmed	Confirmed	Unconfirmed
Polcon3	Confirmed	Unconfirmed	Unconfirmed	Unconfirmed
Polcon4	Unconfirmed	Unconfirmed	Unconfirmed	Unconfirmed
Political Connection Strength	Confirmed	Confirmed	Unconfirmed	Unconfirmed
Political Connection Ratio	Unconfirmed	Unconfirmed	Unconfirmed	Unconfirmed

6.6. CONCLUSION TO CHAPTER 6:

This chapter has discussed the role of political connections in determining firm performance during regional institutional development. The complementary analysis employed the two-step system GMM technique to control for the endogeneity issue and to compare and contrast the effect of different types, strengths and ratios of political connection on firm performance. with consideration of the varying quality of different institutional indicators over the period of 2007 to 2016, and a given set of different measures, thus making the comparison between the main and additional analysis more consistent. The empirical strategy involved the panel data analysis of the selected sample of 172 manufacturing companies between 2007 and 2016. A final significant contribution of the chapter was use of the available database on regional institutional quality jointly compiled by the Vietnam Chamber of Commerce and Industry and the U.S Agency of International Development. As a result of applying this database to the analysis, the findings obtained were complementary to the results of previous studies which used regional institutional data[26] in China.

Contributing to the research on other emerging countries such as China and cross-country studies, it was established that the legal system and anti-corruption efforts at the regional level were conducive to detering politically connected directors from extracting resources from their firm. Following the findings on the grabbing-hand role of political connections obtained in Chapter 5, the boost in the reforms of the legal system and anti-corruption institutions in Vietnamese provinces may become the optimal solution to making the business environment less subject to the rent-seeking actions of bureaucrats. This is also confirmed by other studies (Shleifer & Vishny, 1998; Faccio et al., 2006; Brockman et al., 2013). Moreover, the improvements in the legal system and anti-corruption efforts at the regional level make them more effective, thus transforming the role of political connection from the value-decreasing to the value-creating. This empirical evidence is consistent with the integrated viewpoint of contingency and resources provision when the development of legal systems and anti-corruption efforts at the regional level is taken into account. On the other hand, in terms of the other institutional indicators, such as entry costs and business support services, no explicit role of political connection during the advancement of these institutions has been found. The results emphasises that such development might fail to adjust the value of political connection in an emerging country such as Vietnam. However, the study has found that the role of political connection is conditioned by the level of entry costs in the two-step system GMM approach. As such, the results from the fixed-effect models might be subject to the problem of endogeneity. Bearing that in mind, the interpretation of the findings from the fixed-effect baseline models should be made

[26] This index is the NERI Index.

carefully. In addition, this chapter has also obtained different results to support or inadequately confirm the separate hypotheses associated with the role of each type of political connection during institutional development. Overall, the regional legal system and the anti-corruption campaign are conducive to the resource-providing role of former or current officials and individuals connected to the government, whilst the regional legal system facilitates the role of lecturers and cadres in state-owned academic universities/institutions, and mebers of industry associations. As a result, the findings show that the development of the legal system and anti-corruption institutions are key in influencing the role of political connection. Therefore, the findings from this chapter contribute to the dynamic role of political connection in emerging countries and answers the questions: “What role does political connection play during institutional development?”

CHAPTER 7: CONCLUSION

7.1. INTRODUCTION:

This chapter presents the conclusion to the research thesis, and is structured as follows. The first part is a summary related to the main empirical evidence, while in the second the research contributions are presented. In the third section, the possible policy implications are discussed, and in the fourth section, the possible limitations and potential future research topics are discussed.

7.2. SUMMARY OF THE MAIN EMPIRICAL EVIDENCE:

The thesis has focused on two distinct empirical strands related to the subject of political connection and firm performance. The first analytical chapter investigated the impact of political connection and its interaction with state ownership on firm performance. Its main added value was the analysis, comparison and contrasting of the impacts of different types, strengths, and ratios of political connection on firm performance over a fixed time period from 2007 to 2016, thereby providing a consistent comparison. Contrary to previous studies which have examined the benefits of political connection on firm performance, the findings from the first empirical chapter 5 show that the effect of political connection on the performance of listed manufacturing companies is detrimental. In relation to the impact of different categories of political connection, a negative impact was found of the presence of the officials of government, military, court, procuracy and the members of the national or provincial congresses on the performance of listed companies. Moreover, another aim of the first empirical chapter was to establish the effects of strengths and concentrations of political connection on firm performance. The findings from this additional analysis revealed a decrease in firm performance when the strength of political connection is high. All these findings endorse the negative aspects of political connections inherent in boards of director. The potential for problems with bias, such as the endogeneity of political connection and other variables in the model, and unobservable firm, sectoral and year-specific effects in the relationship between political connection and firm performance, were addressed by using the dynamic panel GMM two-step system. This technique showed that the baseline regression outcomes did not suffer from possible endogeneity biases.

Moreover, this chapter studied the effect of political connection on the performance of listed state-controlled and non-state-controlled manufacturing companies during the period of 2007 to 2016. In order to test for the varying effects, the interaction between political connection and the dummy variable of SOE was employed. The empirical evidence confirms that the effect of political connection can be influenced by ownership structure. In particular, it was found that the appointment of politically connected board directors was detrimental to the performance of state-controlled enterprises, whereas no evidence was found to confirm the role of political connection on the performance of privately-controlled ones. These findings obtained from the fixed-effect baseline models were not subject to the endogeneity bias in the two-step system GMM technique. Additional analysis was subsequently performed in order to find more specific effects of political connection; most of this further analysis emphasised the negative role of political connection.

Finally, the second chapter explored the contingent role of political connection during regional institutional development. By merging the available data on institutional indicators with the selected sample data of listed companies, the findings from the second empirical chapter 6 suggest that the companies are better able to capitalise on political connection when the legal system and anti-corruption efforts are improved. Otherwise, it was noted that there is no contingent role of political connection coupled with reductions in entry barriers in new entrepreneurs' market participation and better quality of business support services at the regional level. However, it is interesting that notwithstanding the unchanged results between the fixed-effect baseline models and two-step system GMM models in terms of the interactive effects of political connection, legal system, anti-corruption efforts, and business support services on firm performance, the results on the interaction of political connection and entry costs do vary between the two approaches. In the two-step system GMM technique, the joint effect of political connection and regional entry costs is significantly positive, which indicates that a decrease in regional entry costs results in resource-providing benefits of political connection. Therefore, more caution should be taken when interpreting how the aspect of regional entry costs enables or blocks such benefits. The additional analysis subsequently focused on gauging the joint impact of different types, strengths and ratios of political connection and institutional indicators on firm performance. From the analysis, only the role of the presence of officials of government, military, court, procuracy and members of the national or provincial congresses, is conditioned by improvements in the legal system and anti-corruption campaign at the regional level. Regarding other types of political connection, no interactions are shown with the institutional indicators. However, there is a negative sign related to the joint effect of political connection type II and business support services, indicating that the role of managers or members of various industry associations is of less value in provinces characterised by high quality of business support services.

7.3. RESEARCH CONTRIBUTIONS:

The research makes several contributions to the literature on political connection. First, previous empirical literature has mainly attributed the perceived benefits and costs of politician-directors to the two potentially competing roles that directors are expected to overcome between two roles they play on the corporate board: the resource-providing role and the governance role (El Nayal et al., 2019; Hambrick et al., 2015). In light of this trade-off, this study has sought to reconcile the ambiguity surrounding the value of politician-directors. Most of the conclusions drawn in previous research on the influence of political connection on firm performance are related to its benefits, but a few studies estimate the costs of political connection (Shi et al., 2018; Tihanyi et al., 2019). In order to fulfill this gap, this study has stressed the governance-based costs related to the appointment of politically connected boards of director members. From the grabbing-hand viewpoint, politically connected directors pursue individual rent-seeking practices at the expense of firm value. Drawing on agency theory, there is a trade-off between the pursuit of their individual benefits and the interests of shareholders, and their responsibilities in relation to the guardian of shareholder interests does not exist.

Regarding the second aim of Chapter 5, it was demonstrated that the impact of political connection could differ greatly between state-controlled and non-state-controlled enterprises. In the light of this finding, the relevance of considering ownership configuration as part of the analysis of the role of political connection is emphasised. Accordingly, this study extends the inconclusive findings of previous research on emerging countries, and the interplay between political connection and ownership configuration, by providing the insights into the substitution view between political connection and state ownership. Drawing on this perspective, the substitution effect between those two forms of state involvement results in the competitive advantage produced by political ties to be dampened in state-controlled enterprises (Firth et al., 2013; Wang, 2015; Wu et al., 2012). Unlike previous studies (Wang, 2015; Wu et al., 2012), this study has shown no influence of political connection on the performance of non-state-controlled enterprises, which demonstrates the harmful role of political connection in SOEs, and its trivial role in non-SOEs.

In relation to the role of political connection during regional institutional development discussed in the second empirical chapter 6, this study contributes to the literature on the contingent value of political connection across regional institutional heterogeneities. Unlike previous studies, which have demonstrated that the beneficial effects of political connection are weakened in high-quality institutional environments and vice versus, this study offers a different standpoint, that political connectedness gives resource-provisionary benefits in such environments. With regard to the agency cost-related role of the politically connected directors discussed in empirical Chapter 5, it has been demonstrated that institutional development is conducive to the resource-providing role of political connection. In other words, it is argued that institutional development, namely anti-corruption efforts and improved legal systems, facilitates the resource-providing facet of political connection to the business status of the companies.

7.4. POLICY IMPLICATIONS:

With regard to policy recommendations, the results of the study suggest that politically connected board of directors and supervisory board members are, on average, ineffective and do not care about the interests of shareholders as well. Therefore, strong evidence is provided that market investors expect policies from the government to curb the corrupt or individual rent-seeking actions from the politically connected board directors and supervisory board members. Second, Fan et al. (2007), Boubakri et al. (2008) and Domadenik et al. (2015) suggest that policymakers should strengthen and improve the institutional environment of companies towards a more market-oriented one, with more stringent legal enforcement and greater investor protection, which may help companies to avoid dependence upon political connections to the detriment of their performance. In addition, policymakers are also recommended to further regulate and develop the financial industry to encourage intermediaries (e.g., financial analysts) to act as effective external monitors. Finally, the anti-corruption campaign should be further promoted as a warning sign for the corrupt politically connected board of directors and supervisory board members in the future (OECD, 2013). Recommendations for better developed quality of legal system and local anti-corruption efforts to curb the corrupt practices of politically connected directors have been empirically corroborated in Chapter 6. The additional policy recommendations revolve around the speeding up of the privatisation process, with the purpose of reducing state ownership. It is possible that the process will help state-owned enterprises to reduce administrative burdens and to open up ownership opportunities for other shareholders, which in turn will help to improve the corporate governance efficiency, with wider participation of well-qualified board directors (La Porta et al., 2000; Tu et al., 2013)

7.5. LIMITATIONS OF THE RESEARCH:

Although this thesis has contributed to the knowledge and made important findings and recommendations for policymakers, it does have some shortcomings. The first limitation is the sample size, which only includes manufacturing companies. The first rationale for choosing a sample of manufacturing companies was the greater availability of data on corporate governance in this sector, while the second was because of the political influence occurring in the manufacturing industry and its long developmental history in the business environment since the initiation of “Doi Moi” economic reform in 1990 (Perkins and Anh, 2009). Compared to other industries, many owners of large manufacturing companies were the officials of government or have relatives working in governmental agencies at the national or provincial level (Markussen & Tarp, 2014; OECD, 2013). Therefore, many previous studies in Vietnam have focused on the manufacturing industry to evaluate the effect of political connection by using the survey samples based on Official General Statistics of the state-owned and non-state-owned manufacturing firms (Rand, 2017; Markussen & Tarp, 2014; Malesky & Taussig, 2009). Therefore, this study also concentrates on this sector to examine the effect of political connection on company performance, but based on the different angle of corporate governance. However, future studies should include more companies in other industries over a longer research period to establish a more specific performance effect of political connection. Increasing the size of the research sample is likely to allow prediction of the effects of each type of political connection upon firm performance at a greater level of accuracy, which this study fails to obtain.

Secondly, the conclusions on the performance effect of politically connected board of directors or supervisory board members do not explain why companies recruit them. Future studies that examine the determinants of the presence of politically connected board directors or supervisory board members would be of interest. Third, although the study uses two-step system GMM to resolve the problem of endogeneity based on the internal instruments, it fails to find better external instruments to control for this issue. Therefore, future research should choose effective external instrumental variables to resolve the issue of endogeneity. Moreover, previous studies on other emerging countries have often employed the exogenous events, such as the anti-corruption campaign in China (Liu et al., 2016; Shi et al., 2018); the death of President Suharto in Indonesia (Leuz & Oberholzer-

Gee, 2006); and the sudden deaths of politicians in many countries (Faccio & Parsley, 2009). In particular, these exogenous shocks serve as a natural experiment and enable us to investigate the overall value effect of politically connected directors compared with that of non-politically connected ones. These shocks offer a unique opportunity to examine the value of politically connected directors mostly free from endogeneity concerns (Liu et al., 2016; Shi et al., 2018). However, in Vietnam there existed the ambiguous presence of an anti-corruption campaign by government until the end year of 2016 and the first year of 2017; and at which time the Communist-Party general secretary of Nguyen Phu Trong in Vietnamese government conducted a large-scale anti-corruption strategy in Vietnam. Therefore, future studies could utilise this event as an exogenous experiment to evaluate the performance effect of politically connected board of directors or supervisory board members.

The fourth limitation is associated with the measurement proxies of political connection. Three different measurements of political connection are employed: a dummy measurement to capture the presence of political connection; the strength of political connection to identify the political power linked to the highly centralised political system in Vietnam that the firm possesses, and the ratio of politically connected executives/non-executives on the board to calculate the concentration of political connection. Despite much progress in improving measurement scales, gauging the nature and concept of political connection remains limited in current studies because the various dimensions of political connection are difficult to disentangle (Yizhong et al., 2019). For instance, most previous studies are based upon the government background of executives/non-executives (Yang et al., 2015); whether firms make campaign contributions (Claessens et al., 2008); whether corporate executives have personal relationships with politicans (Coulomb & Sangnier, 2014); or whether the firm is active in lobbying (Brown, 2016) to detect the presence of political connection, which may provide scant evidence for its measurement proxies. The various dimensions of political connection are often overlooked, such as the friends and the relatives of executives/non-executives who have working experience in governmental agencies (Markussen & Tarp, 2014), government officials' corporate site visits (Yizhong et al., 2019), and the geographic distance of a firm's headquarters from the capital city of the state in whifh they are located (Pantzalis & Park, 2014). As a result, future studies could develop the literature by devising more advanced measurement scales of political connection. Furthermore, advanced measurement of the strength of political connection in the future should include another determinant, namely the tenure of CEOs, chairmen, and other board directors (Chen et al., 2017).

7.6. DIRECTIONS FOR FURTHER RESEARCH:

The literature on political connection has been developing extensively into many new areas of research. Some studies have been centered on the integration of corporate social and corporate political strategies (Du et al., 2019). Drawing on social exchange theory as a theoretical basis for elucidating the business-government relationship in emerging countries as an ongoing social exchange, Du et al. (2019) ascertain that in order to cultivate effective relationships with the government and protect access to government resources, politically connected companies will need to pay back resources. Corporate social responsibility (CSR) is one of the efficient strategies for companies to respond to government resources provision by mitigating their administrative burdens of salient social issues. As a result, the performance implications of political networks can be reinforced when companies conduct the simultaneous CSR practices. On the contrary, the effectiveness of engaging with CSR by companies can also be improved if they have political connections. Such engagement improves firm performance through the underlying process of obtaining sociopolitical legitimacy (Suchman, 1995). In doing so, companies are able to procure the positive responses of stakeholders. It is highly likely that politically connected companies achieve a higher degree of effectiveness from their commitment to engage in CSR activities because they have a high level of awareness of social issues and can better grasp the key expectations of government than companies lacking such connections; in response, they can enhance their sociopolitical legitimacy (Du et al., 2019). Although strategic corporate social responsibility and corporate political activity have been two parallel strands of nonmarket strategy research, they have developed largely in isolation (Mellahi et al., 2016). Along with this, little empirical exploration of interactions between the social and political facets of firm strategies has been made (Frynas & Stephens, 2015; Hadani & Coombes, 2015). The study of Du et al. (2019) was among the first to investigate the two practices in combination with consideration of their simultaneous impacts on firm performance. However, Du et al. (2019)'s findings were constrained by only referring to one specific emerging economy, China, so future research could continue to analyse whether the complementarity between companies' CSR activities and political connections remains consistent in other similar contexts, such as Vietnam. Increasing attention is being paid to the importance of social issues in Vietnam (Nguyen et al., 2018). The country has undergone economic development at an extremely rapid level, but has also experienced the issues of waste and water pollution, poor labour conditions and human rights abuses (M. Nguyen et al., 2018). In tandem with the environmental and social pressures, the government also exerts its policymaking influence over legislation and standards. In this regard, the state has enacted all-inclusive environmental protection laws, together with state policies and statutes, in general to target the safeguarding of employees from abuses (Ortmann, 2017). To expand the findings of Du et al. (2019), therefore, more research might be needed to examine the possible joint effect of establishing political connections and conducting the simultaneous practice of corporate social responsibility on the operations of Vietnamese companies under the theoretical social exchange framework.

In addition to firm's financial performance, another new area of research could focus on other types of firm performance. Previous studies analysing the performance impact of political connection have often deployed firm financial performance, namely return on total assets, return on equity, and sales on total assets because of the availability of data on these financial indicators. This should encourage further critical studies in relation to the impact of political connection on other types of firm performance, for example innovative performance (Krammer and Jiménez, 2019). The impact of political connection on firm innovation remains inconclusive and relatively unexplored (Su et al., 2019). Unlike developed economies, in the context of emerging countries characterised by uncertainty in the business environment and a lack of effective legal systems, there is limited literature on understanding how political connection drives or hinders innovation in emerging and less-developed markets (Kotabe et al., 2017). More investigation to fill this research gap would provide fresh findings on the perceived impact of political ties on firm innovation in the fast-developing, yet little studied economies, such as Vietnam. One barely explored current research concerns examination of the driving forces of political connection in relation to firms' decisions to enter exports markets and their consequent export performance (Sharma et al., 2020). It is plausible that political connection, as an intangible relational resource, may provide a more favourable operational environment for firms (Peng & Luo, 2000; Ridge et al., 2016). Thanks to political support, exporting companies with political ties might be more likely to increase global competition by setting low export prices compared to their competitors in other countries and consequently stay in control of their production and operational expenses in order to make a profit (Sharma et al., 2020).

Finally, although most research revolves around four institutional indicators, the legal system, local anti-corruption efforts, entry costs and business support services, this study has not established how political connection and other institutional proxies interactively affect firm performance. This results in a lack of understanding of the dynamic role of political connection in the development of these institutional indicators. In line with this lack of exploration, and the paucity of empirical evidence on the joint effect of political connection and the remaining institutional indicators in the Provincial Competitiveness Index, this could be an area of analysis in future studies.

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APPENDIX:

THE DATA APPENDIX IN EMPIRICAL CHAPTER 6:

Table 5-11: Multicollinearity Test using Variance Inflation Factor (VIF)

Model	Multicollinearity Test (VIF)	Modified Wald Test for Groupwise Heteroscedasticity	Wooldridge Test for Autocorrelation in Panel Data
Model 5-1 (Polcon)	1.21	0.0000	0.0000
Model 5-5 (Polcon1)	1.21	0.0000	0.0000
Model 5-6 (Polcon2)	1.21	0.0000	0.0000
Model 5-7 (Polcon3)	1.21	0.0000	0.0000
Model 5-8 (Polcon4)	1.21	0.0000	0.0000
Model 5-9 (PCstrength)	1.21	0.0000	0.0000
Model 5-10 (Ratio of Polcon)	1.20	0.0000	0.0000

Table 5-12: Results of Specification Tests:

Specification Test	Model 5-1 (Polcon)	Model 5-5 (Polcon1)	Model 5-6 (Polcon2)	Model 5-7 (Polcon3)	Model 5-8 (Polcon4)	Model 5-9 (PCstrength)	Model 5-10 (Ratio of Polcon)
Hausman test for fixed versus random effects model	0.0003	0.0002	0.0021	0.0021	0.0029	0.0001	0.0015

(If<=0.05=> Fixed Effects)							
Breusch-Pagan LM test for random effects versus OLS (if<=0.05=>use Random Effects)	-	-	-	-	-	-	-
F-test for fixed effects versus OLS (if Prob<=0.05=>use Fixed Effects)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Testparm (Testing for Time-Fixed Effects) (if<=0.05=>time fixed-effects needed)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Decision	Time and Firm Fixed-Effects	Time and Firm Fixed-Effects	Time and Firm Fixed-Effects	Time and Firm Fixed-Effects	Time and Firm Fixed-Effects	Time Fixed-Effects	Time Fixed-Effects

Table 5-13: Tests of Diagnostics

Models	Multicollinearity Test (VIF)	Modified Wald Test for Groupwise Heteroscedasticity	Wooldridge Test for Autocorrelation in Panel Data
Model 5-11 (the interaction of political connection and SOE)	1.82	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 5-12 (the interaction of political connection type I and SOE)	1.74	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 5-13 (the interaction of political connection type II and SOE)	1.41	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 5-14 (the interaction of political connection type III and SOE)	1.41	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 5-15 (the interaction of political connection type IV and SOE)	2.10	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 5-16 (the interaction of strength of political connection and SOE)	1.47	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 5-17 (the interaction of ratio of political connection and SOE)	1.59	Prob>chi2= 0.0000	Prob>chi2= 0.0000

Table 5-14: Results of Specification Tests:

Models	Hausman test for fixed versus random effects model (If<=0.05=> Fixed Effects)	Breusch-Pagan LM test for random effects versus OLS (if<=0.05=>use Random Effects)	F-test for fixed effects versus OLS (if Prob<=0.05=>use Fixed Effects)	Testparm (Testing for Time-Fixed Effects) (if<=0.05=>time fixed-effects needed)	Decision
5-11 (the interaction of political connection and SOE)	0.0006	-	0.0000	0.0000	Time and Firm Fixed Effects
5-12 (the interaction of political connection type I and SOE)	0.0007	-	0.0000	0.0000	Time and Firm Fixed Effects
5-13 (the interaction of political connection type II and SOE)	0.0018	-	0.0000	0.0000	Time and Firm Fixed Effects
5-14 (the interaction of political connection type III and SOE)	0.0010	-	0.0000	0.0000	Time and Firm Fixed Effects
5-15 (the interaction of political connection type IV and SOE)	0.0007	-	0.0000	0.0000	Time and Firm Fixed Effects
5-16 (the interaction of strength of political connection and SOE)	0.0004	-	0.0000	0.0000	Time and Firm Fixed Effects
5-17 (the interaction of ratio of political connection and SOE)	0.0009	-	0.0000	0.0000	Time and Firm Fixed Effects

Table 6-10: Tests of Diagnostics

Models	**Multicollinearity Test (VIF)**	**Modified Wald Test for Groupwise Heteroscedasticity**	**Wooldridge Test for Autocorrelation in Panel Data**
Model 6-1 (the interaction of polcon and legal system)	1.58	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-2 (the interaction of polcon and corruption)	1.52	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-3 (the interaction of polcon and entry costs)	1.56	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-4 (the interaction of polcon and business support service)	1.63	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-9 (the interaction of polcon1 and legal system)	1.47	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-10 (the interaction of polcon2 and legal system)	1.24	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-11 (the interaction of polcon3 and legal system)	1.22	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-12 (the interaction of polcon4 and legal system)	1.25	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-13 (the interaction of PCstrength and legal system)	1.22	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-14 (the interaction of ratio of polcon and legal system)	1.21	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-15 (the interaction of polcon1 and corruption)	1.46	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-16 (the interaction of polcon2 and corruption)	1.27	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-17 (the interaction of polcon3 and corruption)	1.24	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-18 (the interaction of polcon4 and corruption)	1.27	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-19 (the interaction of PCstrength and corruption)	1.24	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-20 (the interaction of ratio of polcon and corruption)	1.23	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-21 (the interaction of polcon1 and business support service)	1.56	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-22 (the interaction of polcon2 and business support service)	1.31	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-23 (the interaction of Polcon3 and business support service)	1.29	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-24 (the interaction of polcon4 and business support service)	1.33	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-25 (the interaction of PCstrength and business servicesupport)	1.30	Prob>chi2= 0.0000	Prob>chi2= 0.0000

Model 6-26 (the interaction of ratio of polcon and business support service)	1.29	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-27 (the interaction of polcon1 and entrycosts)	1.23	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-28 (the interaction of polcon2 and entrycosts)	1.23	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-29 (the interaction of polcon3 and entrycosts)	1.22	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-30 (the interaction of polcon4 and entrycosts)	1.25	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-31 (the interaction of PCstrength and entrycosts)	1.22	Prob>chi2= 0.0000	Prob>chi2= 0.0000
Model 6-32 (the interaction of ratio of polcon and entrycosts)	1.21	Prob>chi2= 0.0000	Prob>chi2= 0.0000

Table 7-12: Specification Tests

Models	**Hausman test for fixed versus random effects model (If<=0.05=> Fixed Effects)**	**Breusch-Pagan LM test for random effects versus OLS (if<=0.05=>use Random Effects)**	**F-test for fixed effects versus OLS (if Prob<=0.05=>use Fixed Effects)**	**Testparm (Testing for Time-Fixed Effects) (if<=0.05=>time fixed-effects needed)**	**Decision**
Model 6-1 (the interaction of polcon and legal system)	0.0216	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-2 (the interaction of polcon and corruption)	0.0000	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-3 (the interaction of polcon and entry costs)	0.0251	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-4 (the interaction of polcon and business support service)	0.0011	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-9 (the interaction of polcon1 and legal system)	0.0094	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-10 (the interaction of polcon2 and legal system)	0.0400	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-11 (the interaction of polcon3 and legal system)	0.0241	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-12 (the interaction of polcon4 and legal system)	0.0502	0.0000	-	-	Random Effects
Model 6-13 (the interaction of	0.0078	-	0.0000	0.0000	Time and Firm Fixed Effects

PCstrength and legal system)					
Model 6-14 (the interaction of ratio of polcon and legal system)	0.0483	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-15 (the interaction of polcon1 and corruption)	0.0000	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-16 (the interaction of polcon2 and corruption)	0.0001	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-17 (the interaction of polcon3 and corruption)	0.0001	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-18 (the interaction of Polcon4 and corruption)	0.0000	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-19 (the interaction of PCstrength and corruption)	0.0000	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-20 (the interaction of ratio of polcon and corruption)	0.0001	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-21 (the interaction of polcon1 and business support service)	0.0004	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-22 (the interaction of polcon2 and business support service)	0.0064	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-23 (the interaction of Polcon3 and business support service)	0.0025	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-24 (the interaction of polcon4 and business support service)	0.0007	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-25 (the interaction of PCstrength and business support service)	0.0004	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-26 (the interaction of ratio of polcon and business support service)	0.0020	-	0.0000	0.0000	Time and Firm Fixed Effects

Model 6-27 (the interaction of polcon1 and entrycosts)	0.0141	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-28 (the interaction of polcon2 and entrycosts)	0.0257	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-29 (the interaction of polcon3 and entrycosts)	0.0540	0.0000	-	-	Random Effects
Model 6-30 (the interaction of polcon4 and entrycosts)	0.0558	0.0000	-	-	Random Effects
Model 6-31 (the interaction of PCstrength and entrycosts)	0.0106	-	0.0000	0.0000	Time and Firm Fixed Effects
Model 6-32 (the interaction of rattio of polcon and entrycosts)	0.0672	0.0000	-	-	Random Effects