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# The Impact of Political Connections on Firm Performance in an Emerging Market: Evidence from Legal Regulations in Vietnam

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**Abstract.** *This study examines the impact of political connections on the firm performance of Vietnamese listed companies in the context of changing legal regulations in two periods: before and after the 2014 Enterprise Law officially takes effect during 2010-2022. Political connections are measured through the relationship of the Board of Directors with state organizations and the background of Vietnamese politicians. Using Pooled Ordinary Least Square regression, the results show a positive relationship between political factors and firm performance in the period 2010-2014, when civil servants are still directly involved in enterprise management. By the period 2015-2022, the influence of political connections on business activities is no longer meaningful. Therefore, the findings could provide implications for stakeholders to enhance the operations of the respective businesses.*

**Keywords:** Board of Directors, firm performance, legal regulations, political connections, politicians

**JEL Codes:** G32, G38, P16

## 1. Introduction

Resource-based theory suggests that firms' competitive advantage stems from possessing tangible and intangible resources that are difficult for rivals to obtain (Barney, 1991). Meanwhile, research by Baysinger and Butler (1985) proves that the most crucial element in a corporation is the Board of Directors (BOD), which has the power to appoint, fire, or compensate managers and risk bearers. Excellent leadership with a broad view and clear goals will help businesses grow stronger and improve. As a result, some corporations have used a strategy of political influence by asking people who are civil servants or politically connected to serve on the Board of Directors to maintain corporate status (Pruzan, 2001). There are loopholes in government regulations that cause companies to always try to cooperate with the government or political organizations through key corporate individuals who have access to government political procedures (Hillman et al., 2009). According to Faccio (2006), people with political connections are those who have a direct link to a current or former government official, or they are currently a minister or hold a government position. Simultaneously, they are members of the company's BOD, or they have any relationship with a politician or government, or minister from another country or state. In a nutshell, political relationships are seen as a bond formed between two parties in exchange for preferential treatment (companies appoint politicians). This relationship may be family, friendship, or a friendly alliance with former or current government officials, or it may be in the context of a shared environment, such as the same school, university, alumni, or employment (Fan et al., 2008; Ahmad Tarmizi and Brahmana, 2022,[2]). Political affiliations seem to have a significant effect on the interests and success of a business. Previous studies have acknowledged that political connections are relational assets, enabling companies to obtain key government resources and support (Faccio, 2006; Boubakri et al., 2012).

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Historically, much research has been done on the impact of political connections on firm performance. However, the results of these studies show different effects between political connections and firm performance. Most previous research has shown that firms benefit from political connections (Fisman, 2001; Johnson and Mitton, 2003; Khwaja and Mian, 2005; Faccio, 2006; Li et al., 2008; Bunkanwanicha and Wiwattanakantang, 2009; Boubakri et al., 2012; Herzog et al., 2013; Lin et al., 2015). However, several studies have uncovered the "dark side" of political connections and show that these relationships damage corporate performance (Cao et al., 2011; Chen et al., 2011; Saeed et al., 2017). Therefore, those results have shown that corporate political influences (CPI) have a large impact on business performance. However, the impact of CPI on corporations is still different depending on the organizational system, action decisions, and leaders' views.

The institutional environment will affect the way businesses operate and operate in emerging markets. One of the key aspects in which firms in emerging markets differ from firms in developed markets is the level of political connections. Many Asian corporations, namely in China, Malaysia, Indonesia, and even Singapore, accept political support (Fisman, 2001; Ang et al., 2013; Cheng et al., 2017). Since Doi Moi 1986, Vietnam has made remarkable economic progress, shifting from a centralized economy to a market economy. Currently, Vietnam is an emerging market where networks or connections play an important role in doing business. However, Vietnam is also a country with a very high level of corruption, so the political connections bring not only solid benefits but also certain costs. Over the past time, the Government has issued many legal documents to closely regulate the activities of enterprises. Meanwhile, the Enterprise Law 2014 stipulates that cadres and civil servants by the law on cadres and civil servants are not entitled to establish and manage enterprises in Vietnam. The changing context of legal documents has directly affected the political connections of listed companies, forcing businesses to take action to comply with the provisions of the law. Typically, from 2014 to 2022, public employees will no longer be members of the Board of Directors of listed companies. Therefore, our study aims to examine the impact of political connections on the performance of listed companies in Vietnam in the context of changing legal regulations in two periods before and after the 2014 Enterprise Law officially takes effect during 2010-2022. In this study, we measure political connections by collecting data on the relationships between members of Vietnam listed companies' Board of Directors and individuals who play a key role in the state apparatus through information about their hometown, college, and job.

This study has three significant contributions to the extant literature. *Firstly*, it provides additional evidence in emerging markets to reinforce the positive impact of political connections on firm performance before the Vietnamese Enterprise Law 2014 that has been shown in previous studies (Fisman, 2001; Johnson and Mitton, 2003; Khwaja and Mian, 2005; Faccio, 2006; Li et al., 2008; Bunkanwanicha and Wiwattanakantang, 2009; Boubakri et al., 2012; Herzog et al., 2013; Lin et al., 2015). *Secondly*, the study finds new empirical evidence on the volatility of the association between political connections and firm performance around the Enterprise Law 2014. After this regulation comes into effect, enterprises in Vietnam are forced to adjust their board members, resulting in the effects of political connections being almost minimal and no longer as effective as before. *Finally*, the study supplements a measure of political connections by adding the commonalities of educational background between board members and politicians or Government members. We collect this variable by examining whether board members attended the same university as politicians or Government members.

The remainder of this paper is organized as follows. Section 2 reviews the previous studies and develops the hypotheses. The research design, variables, models, and research methods are presented in Section 3. The empirical results and discussion are reported in Section 4. Finally, Section 5 summarizes major findings and provides some recommendations.

## 2. Literature Review and Hypotheses Development

Prior studies on the relationship between political affiliation and firm performance have drawn mixed conclusions. Fisman (2001), Boubakri et al. (2012), and Herzog et al. (2013) have proven that firms

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benefit from political connections because they can provide various forms of institutional support, such as access to information and valuable resources. Firms with political connections may receive more government contracts and regulatory support (Bunkanwanicha and Wiwattanakantang, 2009); have greater access to bank loans (Khwaja and Mian, 2005; Li et al., 2008); are more likely to receive assistance with problems (Faccio, 2006); and are able to obtain government subsidies (Johnson and Mitton, 2003; Lin et al., 2015). Additionally, research by Sheng et al. (2011); Wong and Hooy (2018) found that organizations with politically connected boards and stable CPI have a financial competitive advantage over other businesses. Therefore, politically connected board members also help corporations increase their position, power, and investor confidence (Amenta, 2005). For instance, a study analyzing the top 500 oil and gas enterprises in Malaysia by Ahmad Tarmizi and Brahmana (2022, [2]) indicated that firms with political affiliation are more profitable, with 73.8% Return on Assets (ROA) and 7.8% Return on Equity (ROE) compared to firms without political connections. Politicians can bring valuable resources and exert their power to direct and guide companies while maintaining their reputation. Another study analyzing Chinese companies to examine the relationship between political connections and firm performance from 2004 to 2008 by Su and Fung (2015) demonstrated that political connections not only have a positive impact on corporate performance but also reduce the negative impact on the company value of related party transactions.

On the other hand, Chen et al. (2011) considered the relationship between the top executive (Chief Executive Officer - CEO) and the government to measure the connection between political connections and firm performance. They demonstrated that these linkages significantly reduce investment efficiency in state-owned enterprises (SOEs) in China. In addition, Cao et al. (2011) pointed out the unintended consequences of establishing a management mechanism based on political connections. They found that political connections significantly reduced the CEO's probability of leaving, and firm performance improved after these connections were replaced. Saeed et al. (2017) found that in Pakistan, during 2002-2010, directors of politically affiliated companies perform nearly 17% worse than directors of politically unaffiliated companies and 15% lower return on assets and return on equity, respectively. These effects were more pronounced during dictatorships when power was highly concentrated. Therefore, it can be said that growth opportunities of businesses are not solely affected by political connections.

Vietnamese businesses are influenced by factors of the micro and macro environment. Several studies have examined the impact of political connections on firm performance in different contexts. Ha and Frömmel (2020) observed the effects of firms' political connections (PCs) in both ascribed and acquired PCs on the operations of Vietnamese firms. They found that although firms with both ascribed and acquired PCs have lower firm value (FV) than firms without any PCs, firms with acquired PCs exhibit better FV than those with ascribed PCs. Meanwhile, research by Ding et al. (2021) suggested that in Vietnam, as the country shifted from a centrally commanded to a more market-oriented economy, family firms outperformed non-family firms and former state-owned enterprises, unless non-family firms have politically connected CEOs. After the implementation of the 2014 Enterprise Law, a large number of leaders with political ties and positions in the state apparatus withdrew from their roles within companies, affecting organizational structure and planning. This is clearly stated in the Enterprise Law as follows: According to Article 18 of the 2014 Enterprise, cadres, civil servants, and public employees do not have the right to establish and manage enterprises in Vietnam (Clause 2). However, they have the right to contribute capital, buy shares, or purchase capital contributions to joint-stock companies, limited liability companies, and partnerships, except in cases where they are not allowed to contribute capital according to the provisions of the law on cadres and civil servants (Clause 3). Additionally, Clause 3, Article 14 of the Law on Public Employees outlines the right of public employees to engage in business and work outside the prescribed time limit. It states that managers and operators of limited liability companies, joint-stock companies, partnerships, cooperatives, private hospitals, private schools, and private scientific research organizations are allowed to contribute capital, but not participate in it, unless otherwise specified by specialized laws. Therefore, in cases where cadres, civil servants, and public employees are not entitled to establish and manage enterprises, they can only contribute capital to each type of enterprise. In joint-stock companies, officials from ministries, civil servants, and public employees are only allowed to participate as capital contributors, not as members of the Board of

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Directors or the supervisory board of the enterprise. In the case of a limited liability company, officials, civil servants, and public employees cannot contribute capital, as participating in this type of enterprise implies being a member with a management role. For a partnership company, officials, public employees, and employees can only participate as syndicated members, not as partners. Syndicated members are not able to manage the business.

Therefore, we expect that before the implementation of the Enterprise Law 2014, enterprises with boards of directors that have good political connections or former positions in the state apparatus operate more effectively, taking advantage of political connections to influence decisions, plans, and factors. Furthermore, businesses with strong political links will enhance the reputation of their enterprises in external transactions, instill confidence in investors, and mitigate political and legal risks. However, after the implementation of the Enterprise Law 2014, when employees under the Civil Service Law are not allowed to participate in the executive board of the enterprise, political connections have no effect on firm performance. Leaders and organizations need time to prepare and gradually withdraw from the corporate governance apparatus. When the executive apparatus does not have individuals with political connections, the performance of the enterprise will not be significantly affected by political affiliations. The chances of business growth and success remain the same and are not affected by relations with the state or political affiliations. Based on the aforementioned argument, we propose the following hypotheses:

*H1: Before the implementation of the Enterprise Law 2014, political affiliations have a positive impact on the performance of enterprises.*

*H2: After 2015, when the Enterprise Law 2014 takes effect, political relations will no longer affect the performance of enterprises.*

## 3. Research Design

### 3.1. Data and Sampling

Our initial research sample includes 760 companies listed on two stock exchanges in Vietnam, namely the Ho Chi Minh Stock Exchange (HOSE) and the Hanoi Stock Exchange (HNX) from 2010 to 2022. However, we exclude all financial companies, banks, insurance, investment funds, and securities companies due to their differences in their field of business as well as the management policies of the state. Next, the study also removes firms that do not have enough information to apply the research model. To reduce the influence of outliers, we winsorize the variables at the 1$^{st}$ and 99$^{th}$ percentiles. After this process, the final sample consists of 423 companies, corresponding to 2115 observations during 2010-2014 and 3384 in the period of 2015-2022 (Table 1).

**Table 1: Sample selection**

| | |
|---|---|
| Initial sample (2010-2022) Total number of listed companies | 760 |
| (1) Eliminate companies in the banking and finance industry | 148 |
| (2) Eliminate companies that do not have enough information on annual reports and financial statements | 136 |
| (3) Eliminate companies that do not have enough information related to the background of the BOD | 53 |
| Final sample (Total number of remaining companies) | 423 |
| Ratio of the sample to the total number of original samples | 55.66% |

*(Source: Authors' own compilation from FiinPro Platform)*

### 3.2. Empirical models and variables definitions

To assess the impact of political connections on firm performance before and after the implementation of the Vietnamese Enterprise Law 2014, we run the Pooled Ordinary Least Square (OLS) models for Eq.(1) and (2) as follows. Model (1) is used to test the influence of political connections in the

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career path of BOD on firm performance, while model (2) is applied to examine the effects of political connections in the profile background of BOD on firm performance:

$$Performance_{it} = \beta_0 + \beta_1 CON_{it} + \beta_2 AGE_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 CurR_{it} + \beta_6 Insrate_{it} + \varepsilon_{it} \quad (1)$$

$$Performance_{it} = \beta_0 + \beta_1 HOM_{it} + \beta_2 EDU_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 CurR_{it} + \beta_7 Insrate_{it} + \varepsilon_{it} \quad (2)$$

Where subscript i and t represent firm i and year t. The dependent variable "Performance" is measured by three ratios: Return on total assets (ROA), Return on Equity (ROE), and Tobin's Q. For the independent variables, political affiliation is a difficult factor to quantify. However, in this study, we evaluate political connections in two dimensions by collecting data on the career paths and profile backgrounds of members of the Board of Directors (CON, HOM, EDU). All these variables are dummy variables, with the CON variable taking the value of 1 in the following cases and 0 otherwise:

(1) At least one member of the Board of Directors used to work or is currently working or concurrently holding positions at state-owned enterprises

(2) At least one member of the Board of Directors has been or is currently a state cadre, civil servant, or employee, working in Vietnamese public agencies

The variable HOM is equal to 1 if the enterprise has members in the BOD who are from the same native hometown (at the district level) as the General Secretary, Former General Secretary, President, Former President, National Assembly Chairman of the session, Former National Assembly Chairman of the session, Prime Minister, Former Prime Minister in the respective period, and 0 otherwise.

The variable EDU takes the value of 1 if the enterprise's BOD members attended the same university or were trained in political theory at the same training institution as the General Secretary, Former General Secretary, President, Former President, National Assembly Chairman of the session, Former National Assembly Chairman of the session, Prime Minister, Former Prime Minister in the respective period, and 0 otherwise.

Along with independent variables, all the controlling variables are presented in Table 2 below:

**Table 2: Definitions of the variables in the model (1), (2)**

| Variables | Explanation | Calculation |
|---|---|---|
| **Dependent variables** | | |
| ROA | Return on total assets | $\frac{\text{Profit after Tax}}{\text{Total Assets}}$ |
| ROE | Return on shareholders' equity | $\frac{\text{Profit after Tax}}{\text{Total Equity}}$ |
| TobinsQ | Tobin's Q | $\frac{\text{Market value of equity}}{\text{Book value of equity}}$ |
| **Independent variables** | | |
| CON | Political connections the career paths of members in the BOD | |
| HOM | Political connections the profile background of members in the BOD | |
| EDU | Political connections the profile background of members in the BOD | |
| **Control variables** | | |
| AGE | Number of years of establishment | Log (Years) |
| SIZE | Firm size | Ln (Total Assets) |
| LEV | Firm Leverage | $\frac{\text{Total Liabilities}}{\text{Total Assets}}$ |
| CurR | Current ratio | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ |

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| | | |
|---|---|---|
| Insrate | Institutional ownership | Total percentage of shares of major institutional shareholders |

*Notes: Table 2 presents the detailed calculations for each variable identified in our models as discussed in the (Empirical Models) section above.*

## 4. Results and Discussion

### 4.1. Descriptive Statistics

Table 3 summarizes descriptive statistics of the sample in two periods: before and after the Vietnamese Enterprise Law 2014. The VIF test conduct is also conducted to assess multicollinearity, with VIF values ranging from 1.02 to 1.17 and mean values of 1.07 and 1.05 for model (1) and model (2), respectively, indicating no significant multicollinearity issues.

**Table 3: Descriptive statistics**

| Variables | Obs | Mean | Std. Dev. | Min | Max | VIF | 1/VIF |
|---|---|---|---|---|---|---|---|
| **Period 2010-2014 before the Vietnamese Enterprise Law 2014 takes effect** | | | | | | | |
| **ROA** | 2,115 | 0.066 | 0.0758 | -0.646 | 0.494 | | |
| **ROE** | 2,115 | 0.135 | 0.172 | -3.674 | 1.593 | | |
| **TobinsQ** | 2,115 | 1.004 | 0.402 | 0.152 | 5.152 | | |
| **CON** | 2,115 | 0.284 | 0.451 | 0 | 1 | 1.02 | 0.984497 |
| **HOM** | 2,115 | 0.307 | 0.461 | 0 | 1 | 1.02 | 0.984497 |
| **EDU** | 2,115 | 0.310 | 0.462 | 0 | 1 | 1.02 | 0.968940 |
| **AGE** | 2,115 | 1.355 | 0.274 | 0.602 | 1.792 | 1.03 | 0.967043 |
| **SIZE** | 2,115 | 27.349 | 1.493 | 23.798 | 31.527 | 1.12 | 0.890557 |
| **LEV** | 2,115 | 0.511 | 0.206 | 0.044 | 0.896 | 1.17 | 0.855021 |
| **CurR** | 2,115 | 2.173 | 5.850 | 0.207 | 105.704 | 1.13 | 0.886295 |
| **Insrate** | 2,115 | 0.508 | 0.242 | 0.052 | 0.995 | 1.03 | 0.968940 |
| **Mean VIF** | | | | | | | 1.07 |
| **Period 2015-2022 after the Vietnamese Enterprise Law 2014 takes effect** | | | | | | | |
| **ROA** | 3,384 | 0.073 | 0.117 | -1.588 | 1.986 | | |
| **ROE** | 3,384 | 0.145 | 0.391 | -9.810 | 2.987 | | |
| **TobinsQ** | 3,384 | 1.164 | 0.864 | 0.145 | 9.156 | | |
| **CON** | 3,384 | 0.115 | 0.651 | 0 | 1 | 1.02 | 0.981314 |
| **HOM** | 3,384 | 0.207 | 0.561 | 0 | 1 | 1.02 | 0.984497 |
| **EDU** | 3,384 | 0.278 | 0.521 | 0 | 1 | 1.02 | 0.968940 |
| **AGE** | 3,384 | 1.355 | 0.274 | 0.602 | 1.792 | 1.03 | 0.971396 |
| **SIZE** | 3,384 | 27.349 | 1.493 | 23.798 | 31.527 | 1.07 | 0.930416 |
| **LEV** | 3,384 | 0.511 | 0.206 | 0.044 | 0.896 | 1.04 | 0.966176 |
| **CurR** | 3,384 | 2.173 | 5.850 | 0.207 | 105.704 | 1.06 | 0.941452 |
| **Insrate** | 3,384 | 0.508 | 0.242 | 0.052 | 0.995 | 1.03 | 0.974415 |
| **Mean VIF** | | | | | | | 1.05 |

*Note: Table 3 presents descriptive statistics of the variables used in the study. The definitions of these variables are provided in Table 2.*

The performance variables including ROA and ROE have values ranging from negative to positive during 2010-2022, indicating that the sample includes companies with both profitable and loss years. However, Tobin's Q is all positive with the minimum and maximum values being 0.1520 - 5.152 for the

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period 2010-2014 and 0.145 - 9.156 for the period after the Enterprise Law 2014. It indicates that in terms of market potential, all observed firms are profitable.

Regarding political connections variables including CON, HOME, and EDU, results from Table 3 show that nearly one-third of the researched firms have politically affiliations during the period 2010-2014. However, after the implementation of the Enterprise Law 2014, the number of politically connected businesses has reduced.

The AGE variable represents the number of years of establishment of the business, with an average of 1.35, corresponding to an average age of 26 years. The youngest enterprise in the sample has been established for 5 years, while the oldest enterprise is 75 years old. Vietnamese listed companies are relatively young compared to other countries, as they are often equitized from state-owned enterprises. The SIZE variable shows differences in company size, with an average value of 27.349, corresponding to total assets of VND 754.257 billion. This can be explained because observed firms come from diverse industries and business fields. The mean value of the LEV variable is 0.511, which is a safe threshold for all businesses. The current ratio (CurR) in the sample has an average value of 2.173, showing that businesses have a good ability to pay short-term debts. However, a few businesses whose current ratio is below 1 can also be a sign of instability in payment problems or excess inventory. The highest value of 105.704 belongs to Vinam Joint Stock Company (CVN) due to the total short-term assets of 152.7 billion while only 1.4 billion of short-term debt. The Insrate variable has an average of 50.8% and ranges from 5.24% to 99.51%, which demonstrates that institutional ownership in the sample is approximately 50%.

### 4.2. The effects of political connections on firm performance before the Vietnamese Enterprise Law 2014

Table 4 reports the OLS results for the effects of political connections on firm performance in the period of 2010-2014 before the Vietnamese Enterprise Law 2014 takes effect. Models (1) and (2) examine the influence of political connections based on the career path (CON) and the profile background (HOM and EDU) of the Board of Directors (BOD).

**Table 4: Regression results for the effects of political connections on firm performance of Vietnam listed companies before the Enterprise Law 2014**

| Variables | Model (1) | | | Model (2) | | |
|---|---|---|---|---|---|---|
| | **ROA** | **ROE** | **TobinsQ** | **ROA** | **ROE** | **TobinsQ** |
| CON | 0.017** | 0.005* | 0.012* | | | |
| | (2.40) | (0.61) | (1.53) | | | |
| HOM | | | | 0.023** | 0.028* | 0.012* |
| | | | | (1.19) | (1.07) | (2.52) |
| EDU | | | | 0.03* | 0.058* | 0.014* |
| | | | | (1.02) | (0.56) | (2.45) |
| AGE | 0.016* | 0.212*** | 0.001* | 0.022* | 0.128*** | 0.003* |
| | (2.40) | (1.25) | (3.72) | (2.30) | (1.52) | (3.73) |
| SIZE | 0.038* | 0.005* | 0.001* | 0.024* | 0.004* | 0.002* |
| | (2.07) | (2.80) | (10.31) | (2.26) | (2.91) | (10.37) |
| LEV | -0.001* | -0.413*** | -0.010* | -0.004* | -0.251*** | -0.008* |
| | (-12.58) | (-0.82) | (-2.57) | (-12.69) | (-1.15) | (2.67) |
| CurR | 0.001* | 0.005* | 0.003* | 0.003* | 0.007* | 0.005* |
| | (8.97) | (2.83) | (11.56) | (8.84) | (2.71) | (11.62) |
| Insrate | 0.002* | 0.001* | 0.004* | 0.002* | 0.001* | 0.006* |
| | (5.50) | (4.66) | (6.04) | (5.69) | (4.81) | (6.07) |
| Constant | -0.023* | -0.039* | -0.002* | -0.194*** | -0.021* | 0.003* |
| | (-1.19) | (-2.07) | (-7.00) | (-1.30) | (-2.31) | (-6.98) |

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| | | | | | | |
|---|---|---|---|---|---|---|
| N | | | 2115 | | | 2115 |
| $R^2$ | 0.2036 | 0.0542 | 0.1602 | 0.2021 | 0.0590 | 0.1622 |

*Notes: Table 4 presents OLS regression results for the effects of political connections on firm performance before the Vietnamese Enterprise Law 2014 in Eq.(1) and (2). The definitions of these variables are provided in Table 2. The symbols *, **, *** indicate statistical significance at 10%, 5%, and 1%, respectively.*

In Table 4, the coefficients for all political connections (CON, HOM, and EDU) are positive and significant at the 5% level for ROA and 10% for ROE and Tobin's Q. The results suggest that political connections have a positive association with firm performance before the Vietnamese Enterprise Law 2014. These findings support Hypothesis 1 and align with previous studies of Fisman (2001), Johnson and Mitton (2003), Khwaja and Mian (2005), Faccio (2006), Li et al. (2008), Bunkanwanicha and Wiwattanakantang (2009), Boubakri et al. (2012), Herzog et al. (2013), Lin et al. (2015), Ha and Frömmel (2020). The variable CON is positive associated with firm performance, confirming the author's expectations that political connections in the Board of Directors' career path positively influence firm performance.

In an emerging market like Vietnam, it is understandable that firms with political connections demonstrate better business performance. Firstly, firms with political affiliations can access valuable information faster. In a market with high information asymmetry like Vietnam, timely information acquisition is crucial for making strategic decisions. Secondly, political connections may facilitate easier access to capital, particularly unsecured loans, thereby creating more favorable conditions for production and business activities.

The findings are also supported by previous studies conducted in emerging markets in regions such as Southeast Asia or South America. Numerous studies have examined the influence of political connections on firm performance in emerging markets, consistently indicating a positive relationship. For example, a study by Ahmad Tarmizi and Brahmana (2022, [1]) in Malaysia found that politically connected firms experienced higher profitability and growth rates compared to non-connected counterparts. Similarly, a research project by Arantes et al. (2023) in Brazil provided substantial empirical evidence showing that politically connected firms enjoyed greater access to resources, including government contracts and subsidies, leading to improved financial performance. Furthermore, a comprehensive meta-analysis conducted by Prasetyo and Nasution (2022) across multiple emerging markets corroborated these findings, revealing a strong and significant positive association between political connections and firm performance metrics such as return on assets and market value. Collectively, these studies provide compelling evidence supporting the hypothesis that firms with political connections tend to exhibit better business performance in emerging markets.

Additionally, the study finds evidence to support the influence of control variables, including the number of years since establishment (AGE), firm size (SIZE), financial leverage (LEV), current ratio (CurR), and institutional ownership (Insrate) on firm performance during the period 2010-2014.

### 4.3. The effects of political connections on firm performance after the Vietnamese Enterprise Law 2014

In 2014, Vietnam enacted the Enterprise Law, which prohibits cadres and civil servants from establishing and managing enterprises. When the Enterprise Law 2014 took effect, listed companies were required to adjust their Board members. This adjustment might indirectly affect the political connections that enterprises have. Table 5 presents the OLS results for the effects of political connections on firm performance during the period of 2015-2022 after the Vietnamese Enterprise Law 2014 takes effect. Models (1) and (2) examine the influence of political connections based on the career path (CON) and the profile background of the BOD (HOM and EDU).

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**Table 5: Regression results for the effects of political connections on firm performance of Vietnam listed companies after the Enterprise Law 2014**

| Variables | Model (1) | | | Model (2) | | |
|---|---|---|---|---|---|---|
| | ROA | ROE | TobinsQ | ROA | ROE | TobinsQ |
| CON | 0.687 | 0.324 | 0.359 | | | |
| | (0.87) | (0.59) | (0.92) | | | |
| HOM | | | | 0.014 | 0.030 | 0.012 |
| | | | | (1.34) | (1.02) | (2.55) |
| EDU | | | | 0.05 | 0.058 | 0.124 |
| | | | | (1.06) | (0.55) | (2.45) |
| AGE | 0.162*** | 0.212*** | 0.001* | 0.022* | 0.128*** | 0.003* |
| | (2.40) | (1.25) | (3.72) | (2.30) | (1.52) | (3.73) |
| SIZE | 0.038* | 0.005* | 0.001* | 0.024* | 0.004* | 0.002* |
| | (2.07) | (2.80) | (10.31) | (2.26) | (2.91) | (10.37) |
| LEV | -0.001* | -0.413*** | -0.010* | -0.004* | -0.251*** | -0.008* |
| | (-12.58) | (-0.82) | (-2.57) | (-12.69) | (-1.15) | (2.67) |
| CurR | 0.001* | 0.005* | 0.003* | 0.003* | 0.007* | 0.005* |
| | (8.97) | (2.83) | (11.56) | (8.84) | (2.71) | (11.62) |
| Insrate | 0.002* | 0.001* | 0.004* | 0.002* | 0.001* | 0.006* |
| | (5.50) | (4.66) | (6.04) | (5.69) | (4.81) | (6.07) |
| Constant | -0.023* | -0.039* | -0.002* | -0.194*** | -0.021* | 0.003* |
| | (-1.19) | (-2.07) | (-7.00) | (-1.30) | (-2.31) | (-6.98) |
| N | 3384 | | | 3384 | | |
| $R^2$ | 0.2036 | 0.0542 | 0.1602 | 0.2021 | 0.0590 | 0.1622 |

*Notes: Table 5 presents OLS regression results for the effects of political connections on firm performance after the Vietnamese Enterprise Law 2014 in Eq.(1) and (2). The definitions of these variables are provided in Table 2. The symbols *, **, *** indicate statistical significance at 10%, 5%, and 1%, respectively.*

The empirical results in Table 5 fully support Hypothesis 2, suggesting that after the Vietnamese Enterprise Law 2014, political connections no longer affect firm performance. We do not find any evidence for a relationship between any of the political connection variables (CON, HOM, EDU) and firm performance including ROA, ROE, Tobin's Q. When the inherent political connections change due to the mandatory adjustment of board members under the 2014 Enterprise Law, firms must take measures to reduce their dependence on the impact of political connections on firm performance. Once these measures are effective, political connections will no longer affect business operations and performance.

Research conducted in other emerging markets also provides evidence to support the hypothesis that changes in political conditions diminish the impact of political connections on firm performance. A study by Sakti et al. (2020) conducted in Indonesia found that political connections initially had a positive influence on firm performance. However, when political conditions changed due to shifts in government policy priorities, the impact of these connections on firm performance significantly diminished. Similarly, research by Yeniaras and Kaya (2021) in East Asian countries revealed that firms with political connections initially experienced improved performance, but when political changes occurred, such as changes in government or policy direction, the once beneficial connections became less influential in driving firm outcomes. These findings highlight the dynamic nature of political connections and their vulnerability to shifts in political conditions, indicating that the positive impact on firm performance may not be sustainable when changes in political circumstances occur.

From 2015 to 2022, the study still finds that the control variables influence firm performance. Financial leverage (LEV) has a negative impact on ROA, ROE, and Tobin's Q whereas all remaining variables comprising AGE, SIZE, CurR, and Insrate positively influence business performance.

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### 4.4. Robustness check

We test the robustness of our models for the two hypotheses by changing the measure of the political connections variable. Instead of using the political connections variables CON, HOM, and EDU, we evaluate a politically connected firm as a former state-owned enterprise (GOV). We use the same research method as discussed above to conduct the robust test for the impact of political connections on firm performance around the Vietnamese Enterprise Law 2014.

$$Performance_{it} = \beta_0 + \beta_1 GOV_{it} + \beta_2 AGE_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 CurR_{it} + \beta_6 Insrate_{it} + \varepsilon_{it} \quad (3)$$

Where subscripts i and t indicate the firm and year, respectively. All variables, except GOV, are defined in Table 2. The results in Table 6 reinforce our findings in the main models (1), (2), which state that firms with political connections have better firm performance before the Vietnamese Enterprise Law 2014, however, these effects are no longer significant when the Enterprise Law 2014 comes into effect.

**Table 6: Robustness test results for the effects of political connections on firm performance of Vietnam listed companies before and after the Enterprise Law 2014**

| Variables | Model (3) Before the Enterprise Law 2014 | | | Model (3) After the Enterprise Law 2014 | | |
|---|---|---|---|---|---|---|
| | **ROA** | **ROE** | **TobinsQ** | **ROA** | **ROE** | **TobinsQ** |
| GOV | 0.007* | 0.008* | 0.006** | 0.117 | 0.238 | 0.875 |
| | (0.30) | (0.22) | (2.74) | (3.15) | (1.55) | (5.35) |
| AGE | 0.034* | 0.228*** | 0.001* | 0.022* | 0.717*** | 0.001* |
| | (2.12) | (1.21) | (3.83) | (1.61) | (0.36) | (3.19) |
| SIZE | 0.024* | 0.004* | 0.001* | 0.012* | 0.026* | 0.001* |
| | (2.26) | (2.86) | (10.56) | (2.52) | (2.22) | (4.89) |
| LEV | -0.001* | -0.411*** | -0.014* | -0.002* | -0.001* | -0.005* |
| | (-12.62) | (-0.82) | (-2.46) | (-6.60) | (-7.19) | (-2.84) |
| CurR | 0.001* | 0.005* | 0.003* | 0.003* | 0.353*** | 0.002* |
| | (8.86) | (2.78) | (11.41) | (8.80) | (0.93) | (3.69) |
| Insrate | 0.001* | 0.003* | 0.004* | 0.001* | 0.086** | 0.005* |
| | (5.36) | (4.58) | (6.66) | (6.19) | (1.72) | (9.13) |
| Constant | -0.021* | -0.039* | -0.001* | -0.076* | -0.205*** | -0.006* |
| | (-1.24) | (-2.09) | (-7.15) | (-1.77) | (-1.27) | (-2.78) |
| N | | 2115 | | | 3384 | |
| $R^2$ | 0.2011 | 0.0541 | 0.1628 | 0.1961 | 0.0385 | 0.1786 |

*Notes: Table 6 presents robust rest results for the effects of political connections on firm performance before and after the Vietnamese Enterprise Law 2014 in Eq.(3). The definitions of these variables are provided in Table 2. The symbols *, **, *** indicate statistical significance at 10%, 5%, and 1%, respectively.*

## 5. Conclusions and recommendations

This study examines the relationship between political connections and the firm performance in Vietnamese listed companies before and after the effective date of Enterprise Law No. 68/2014/QH13. We employ the ordinary least squares regression method (OLS) on a sample of 423 enterprises, divided into two periods: 2010-2014 and 2015-2022. In the main models, we use three variables to measure political connections based on both the career path and profile background of the board members. The research results from the main models reveal different findings for the two distinct periods. Before the implementation of the 2014 Enterprise Law, political connections have a positive effect on business performance. This finding not

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only demonstrates the positive influence but also highlights the comprehensive and significant impact of political connections on business activities. However, after 2015, when the Enterprise Law 2014 comes into effect, political connections no longer affect firm performance. This result is consistent with previous studies conducted on the influence of political connections on firm performance in emerging markets, such as countries in Southeast Asia or South America. The underlying reason can be attributed to the amendment of the Enterprise Law, which prohibits the participation of cadres, civil servants, and public employees in the executive board of enterprises. As a result, businesses are less driven or supported by political connections, leading to a reduction in the influence of political factors on corporate activities. Additionally, the robustness check, where we replace the measurement of political connections, yields the same reulsts, providing further support for the findings in the main models.

This study contributes to the existing literature on emerging market finance by providing new evidence regarding the relationship between political connections and firm performance in the context of legal regulations. Our findings have implications for managers and regulators. It is crucial to establish a strong board that is closely connected and well-informed to provide sound advice. Effective board functioning relies on mutual respect, trust, and a shared sense of purpose. When a spirit of collaboration and exchange becomes the norm, board members learn to adapt their individual personalities to align with the collective. While there is plenty of guidance available on effective board management, it is increasingly clear that the selection of board members is just as vital as leveraging talent within the business. The composition of the board is crucial, even for small business, as it can enhance startup success and contribute to the overall strength and growth of the business. Therefore, board members should possess decision-making skills and practical experience to provide guidance to confident CEOs, helping them avoid risky situations that could adversely affect the business. Meanwhile, government authorities should tighten regulations to promote transparency and market efficiency, fostering confidence among businesses and investors alike.

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