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Political connection heterogeneity and firm value in Vietnam

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Abstract: The observation of firms' political connections (PCs) in both types of ascribed and acquired PCs has raised the question of their benefits to firms' operation. Based on 1,365 Vietnamese listed firm-year observations from 2010 to 2014, we find 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. The paper also reveals that concentrated ownership (CO) has a mediation impact on the association between acquired PCs and FV while it can help firms with acquired PCs in improving FV.

Subjects: Political Economy; Leadership; Corporate Governance

Keywords: political connections; concentrated ownership; firm value

Jel Classification: G32; G38; O16; O53.

1. Introduction

The institutional environment affects the way in which corporations in emerging markets operate and behave. One of the key aspects in which firms in emerging markets differ from those in developed markets is in the level of PCs. Firms with PCs can enjoy many preferential treatments, such as bailouts from the government, advantaged regulations, benefits from tax policy and priority in access to finance (Agrawal & Knoeber, 2001; Faccio, 2006; Johnson & Mitton, 2003; Khwaja & Mian, 2005). Although corporate PCs appear to be widespread around the world, they are

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This article is a co-work between Dr. Phuoc Vu Ha and professor Michael Frömmel.

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PUBLIC INTEREST STATEMENT

One of the key aspects in which firms in emerging markets differ from those in developed markets is in the level of political connections (PCs) since it can affect the benefits they earn and the costs they need to pay. Although firms with PCs can enjoy many preferential treatments, they also need to face many problems that occur from their PCs. By divided PCs into two types of ascribed and acquired PCs, we find that although firms with both types of PCs have lower firm value (FV) than firms without any PCs, firms with acquired PCs create better FV than those with ascribed PCs. Our paper also reveals that concentrated ownership (CO) has a mediation impact on the association between acquired PCs and FV while it can help firms with acquired PCs in improving FV. This study offers a better understanding about political connections in a featured emerging market, Vietnam.

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likely to be more pronounced in emerging markets due to the institutional features of such markets where markets fail and institutions are weak as characterized by weak rules of law, rampant corruption, government control of the press, a lack of accountability and transparency, government intervention in business activities and low-quality public governance (Fan et al., 2011; Kinghan & Newman, 2015; Nee & Opper, 2007). Thus, emerging markets provide a rich setting to explore the role of PCs in a market economy.

PCs refer to formal and informal ties between firms and political powers: for example, the equity ownership of the state or managerial connections with politicians (Deng et al., 2018; Faccio, 2006; Inoue et al., 2013; Sun et al., 2015). In other words, some PCs are naturally obtained or ascribed but some others are acquired instrumently. Firms with ascribed PCs are fundamentally different from those with acquired PCs (Deng et al., 2018). The benefits of firms with ascribed PCs come from strong relationships with the government via state ownership of their equity (Duanmu, 2014; Xia et al., 2014). M. H. Li et al. (2014) show that state-owned enterprises (SOEs) receive strong assistance from the government when they run their business in their home country. While SOEs are known as firm with equity-based political ties, non-SOEs can also develop the connections with politicians for opportunistic purposes via managerial-based political ties, which are called acquired PCs. However, acquired PCs are more fragile than ascribed PCs when firms with acquired PCs always need to seek or maintain their PCs, but SOEs with natural PCs do not. However, while bringing many benefits, PCs can also come with costs for the firm when the politically connected managers are rent-seeking, as explained by agency theory (Nguyen & Van Dijk, 2012). Firms with PCs always need to make informal payments for the benefits they get. Hence, it has raised the question about if the heterogeneity of political connections leads to a difference in firm value among firms with ascribed or acquired PCs and firms without any type of PCs.

It is likely that there is a link between firm's ownership and their PCs, since both ownership and PCs have an impact on the firm's decision-making. The concentration or diffusion of firm's ownership plays an important role in firm's efficiency. Different with firms with concentration in ownership, managers in firms with diffuse ownership have significant power at hand; however, their interests do not coincide with those of shareholders. Hence, the use of corporate resources does not focus on maximizing the benefits of shareholders, which they deserve to get. A strong positive relation between concentrated ownership (CO) and corporate performance can be found in developed countries (Claessens & Djankov, 1999; McConnell & Servaes, 1990; Shleifer & Vishny, 1986; Zingales, 1994) because firms with concentration in ownership seem to have better monitoring and result with better performance. The results are similar to transition economies where CO has a positive impact on stock price or firm performance (Claessens, 1997; Earle & Estrin, 1996; Weiss & Nikitin, 1998; Xu & Wang, 1997). Firms with CO may have less probability of an increasing agency cost, which is brought by PCs of firms. It can be explained that a lack of concentration in ownership leads to agency problems, resulting in inferior performance (Gaur et al., 2015). Moreover, firms with concentration in ownership may have a stronger focus on getting benefits from their PCs rather than those with diffuse ownership. Therefore, CO plays an important role in the impact of PCs on firm efficiency.

Much of the empirical work on the impacts of PCs has been done with diversification in the results (e.g., Adhikeri et al., 2006; Boubakri et al., 2008; C. R. Chen et al., 2017; Ding et al., 2014; Du & Girma, 2010; H. Li et al., 2008; Sheng et al., 2011; Su & Fung, 2013; Wong, 2016; Wu et al., 2012; Zhang et al., 2014), or even with a main focus on the impacts of managerial-based and equity-based political ties (e. g. Deng et al., 2018). Moreover, the topic of CO and firm performance is not a new one (e. g. Altaf & Shah, 2018; Z. Chen et al., 2005; Claessens & Djankov, 1999; Gaur et al., 2015; Lefort & Urzúa, 2008; Wang & Shailer, 2013). However, there is still a gap in the literature on the multiple impacts of PCs on firm value focusing on the heterogeneity of PCs between ascribed and acquired ones, and the previous studies especially overlook the mediational effect of CO on the relation between PCs and firm value. Hence, in order to address the research gap associated with the heterogeneous effects of PCs as well as the mediational influence of CO, the aims of this

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paper are therefore to analyze whether (i) firms with ascribed PCs have better firm value (FV) than those without any PCs; (ii) firms with acquired PCs have higher FV than those without any PCs; (iii) CO plays an important role in the impact of acquired PCs on FV and (iv) acquired politically connected firms exhibit higher FV than ascribed politically connected firms. In order to do so, we use different sub-samples from a unique dataset of 1,365 firm-years based on 273 firms listed on the Hanoi Stock Exchange (HNX) and the Ho Chi Minh stock exchange (HOSE) in Vietnam for the period 2010–2014 to have a pairwise comparison for each of hypothesis.

We choose Vietnam for several reasons. First, Vietnam shows a typical picture of an emerging market (Meyer & Nguyen, 2005). Second, Vietnam is a network-oriented economy (Pham & Talavera, 2018), where networks or connections play important roles in doing business (To & Tran, 2015). Third, a very high level of corruption can be found in Vietnam,[1] which is a proof that firms may need to make informal payments for their connections "in order to get things done"; therefore, PCs not only bring firm benefits but also, they bring costs. Fourth, with shifting from a centrally planned to a market economy from the economic and political reforms under Đổi Mới in 1986, Vietnam has showed remarkable economic development and now has become one of the most dynamic emerging countries in East Asia region[2]; hence, the study can be seen as one of the most important references in order to build up a better environment for economic development.

Our mostly empirical contribution to the literature is in four aspects. First, the study provides new insights into PCs by figuring out the heterogeneous impacts of PCs on FV by using two perspectives of PCs including ascribed and acquired PCs and considering the importance of ownership structure in the impact of PCs on FV. Second, related to agency theory, we find that a higher FV is not exhibited from PCs because of the increasing agency cost; but in the case of firms with CO, acquired PCs can exhibit some benefit. This also sheds the light on the literature about the link between ownership structure and PCs in emerging markets. Third, we introduce the new and clearer measure of PCs, which is easier and more reliable to collect in an emerging market like Vietnam. Fourth, we add a country study for Vietnam to the emerging literature on the relationships of PCs, CO and FV.

The paper proceeds as follows: Section 2 shows the literature review and hypotheses development. Section 3 introduces data and models. Section 4 presents the analysis results. Section 5 gives some discussions and conclusion.

2. Literature review and hypotheses development

Previous studies suggest several benefits of PCs for firms, including access to privileged financing sources, subsidies or the use of contacts and knowledge to obtain favors when developing new regulations or participating in contracts with government authorities (Agrawal & Knoeber, 2001; Pérez et al., 2015). Besides that, Faccio (2006) argues that political relationships can help firms to exploit weaknesses in their institutional environment and lead to preferential government treatments such as, for instance, easier access to bank financing, lower tax rates, more contracts with the government and less strict regulatory supervision. Boubakri et al. (2008) show that politically connected firms have less budget constraints and are less exposed to competition than firms without PCs. Moreover, firms with PCs can easier attract investments. Duchin and Sosyura (2012) conclude that politically connected firms receive more public investment than firms without. Summing up, the benefits of PCs can lead to superior performance and increase the FV of politically connected firms (Hillman, 2005). This is especially relevant in an emerging economic setting with high corruption and weak rule of law enforcement, since PCs may result in rent-seeking behaviour of politically connected shareholders and/or managers (Muttakin et al., 2015).

In emerging markets, politically connected firms can be recognized by equity shareholding and managerial ties (Deng et al., 2018; Inoue et al., 2013; Sun et al., 2015). From the perspective of equity shareholding, the state owns more than 50% of the firm's total shares can be seen as a strong proof for the connection between firm itself and political powers. Besides, the

representatives of state ownership in SOEs are also known as politicians who have close relationships with governmental authorities (T. Nguyen, 2006). Hence, this strong connection grants firms many benefits. With the perspective of managerial relationships, managers of the firms may actively seek the connections with politicians. With political networks acquired in various ways, firms can get many benefits even with informal payments (Nguyen & Van Dijk, 2012). To sum up, firms may have their PCs in two types: managerial-based political ties as acquired PCs or equity-based ones as ascribed PCs.
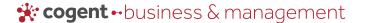
Ascribed PCs are known as the natural political ties, which SOEs have via state-ownership in firm's equity. Because of the strong relationship between SOEs and the government, the firms of course receive many advantages from the government. However, it can be found that there is the lack of efficiency of SOEs (Boubakri et al., 2008). The inefficiency in acquired politically connected firms can be explained by several reasons. First, the political view of SOEs posits that the high political interference in the decision-making process of these firms distorts the objectives defined for managers (Shleifer & Vishny, 1994). It can be known that SOE's managers seek to maximize their own benefits or ensure success in elections, and a long tenure in power rather than maximizing profit or value of firms. Second, a lack of outside monitoring makes firms with ascribed PCs inefficient (Grossman & Hart, 1983; Jensen & Meckling, 1976; Nguyen & Van Dijk, 2012). Laffont and Tirole (1993) also believe that the inefficiency of SOEs is because the managers of those firms are not adequately monitored, as there is no individual owner with the necessary incentives to do this. Moreover, natural PCs of SOEs are also the means, which the government and affiliated politicians use to extract the benefits at the expense of wealth maximization for the benefit of other stakeholders in the firm (Boubakri et al., 2008).

Vietnam is characterized by a high share of SOEs. SOEs in Vietnam are defined as the firms in which the government owns an effective controlling interest, with the objectives of helping the government in shouldering a number of social responsibilities, operating for the benefit of society coping with market failures. This leads to the fact that SOEs are not oriented towards and do not try to maximize profits like private companies. Therefore, SOEs in Vietnam are always put under the political system (Nguyen, 2003) and enjoy many priorities in government investments, using 60% of national capital resources (Nguyen, 2006). The leaders of Vietnamese SOEs are the representatives of state's capital in the firms and known as politicians or the ones who have strong connections with politicians. Therefore, with strong connections with political power, SOEs can achieve many benefits and advantages, which they cannot obtain if they were privately owned. The literature suggests that SOEs are likely to have competitive advantages in the form of preferential treatments, and this mainly occurs in economies with weak institutions and legal regimes, thus typically in emerging markets like Vietnam. The benefits that SOEs obtain include preferential access to credit, regulatory protection or government aid to financially distressed firms. But from this reason, SOEs often need to make informal payments to maintain their political connections, which bring to them many benefits (Nguyen & Van Dijk, 2012). Therefore, corruption is mainly a big problem in SOEs.

Vietnamese SOEs, besides having many benefits, also have many problems and costs, which all are created from their acquired PCs. We, therefore, hypothesize that the following:

H1: Firms with ascribed PCs have lower firm value than firms without any PCs.

Vietnam is a network-oriented economy (Pham & Talavera, 2018) and firms always do business easier with better networking. However, in a country with a very high level of corruption like Vietnam,[3] firms always need to pay in order to maintain their PCs (or even create a new one). It is usual that informal payments need to be made by the firms who "want to get things done". In this case, if the benefits from connections are higher than the costs, firms with PCs may have better firm value than those without PCs. However, the CEO of the firm first thinks about his/her benefits rather than the right of shareholders. This is especially in Vietnam as a country with a weak corporate governance framework where the shareholder resistance is not much (Bertrand et al., 2018). Therefore, like "a coin has

two sides", and acquired PCs come with many benefits, but also with many costs. In terms of a "helping hand", a number of studies have found that acquired PCs can help firms to gain a number of benefits (C. R. Chen et al., 2017) including benefits from soft-budget constraints, a lower risk of liquidity constraints, benefits from tax policy, stronger market power, receiving government contracts or even more relaxed regulations. It can be recognized that a number of papers have showed that firms can gain many advantages from their close relationships with political power. It suggests that politicians often use their political power to give the economic favors to the firms, which have strong connections with them (see Adelino & Dinç, 2014; Amore & Bennedsen, 2013; Faccio et al., 2005; Fisman, 2001; Johnson & Mitton, 2003; Sapienza, 2004; Schoenherr, 2019). However, in this case, politicians prefer private ownership than shareholding ownership because they can seek rent or extract more resources from private shareholders using bribes or excess employment (C. R. Chen et al., 2017). In contrast, in terms of a "grabbing hand", PCs can harm firm efficiency if the officials exert political pressure to engage in rent-seeking behaviors. Besides that, firms with acquired PCs may need to deal with the agency problem because politically connected members of the board of directors try to keep the firm's internal governance structure weak and lower its performance (Muttakin et al., 2015). Moreover, Boubakri et al. (2008) report that the managers of firms with acquired PCs lack incentives to maximize shareholder wealth or improve operating profit. Furthermore, firms always need to make informal payments to maintain their connections with political power. In other words, preferences that firms get also come with costs.

In comparison between the advantages and disadvantages brought by acquired PCs, especially with the context of an emerging market like Vietnam, we hypothesize the following:

H2a: Firms with acquired PCs have lower firm value than those without any PCs.

Even acquired PCs can have negative effects on firm value since acquired PCs may come to firms with costs, but we still think that firms can benefit from their acquired PCs with the belief that CO can help. Different that diffuse ownership, firms with CO can have less probability of facing agency problems; besides, CO can help acquired PC firms to concentrate on maximizing the benefits from PCs in comparison with cost. Furthermore, firms with concentration in ownership seem to have better monitoring and results with better performance since firms can focus easier on the goals of maximizing profit. Therefore, the following can be hypothesized:

H2b: Acquired politically connected firms with CO have higher firm value than those with diffuse ownership and firms without any PCs.

Although both ascribed and acquired PCs bring firms with disadvantages since all types of PCs are hypothesized to have negative effects on firm value, except acquired politically connected firms with CO, firms with acquired PCs are hypothesized to have higher firm value than those with ascribed PCs. It can be explained that firms with ascribed PCs are usually bureaucratic, inefficient and incapable of maximizing profit (Deng et al., 2018; Williamson & Raman, 2011). Vietnamese SOE managers have weaker motives to pursue profit and efficiency than those in private-owned firms (Ramstetter & Phan, 2013). First, SOEs are often expected to be relatively inefficient compared to other firms. The Vietnamese government has often put SOEs in a competitively lacking environment that weakens the pressure on the SOEs to run the firm efficiently. The second reason of the weak motives of SOE managers is salaries or bonuses. The managers of SOEs are the representatives of a state's share in firms, and they manage the firms as their jobs and all they receive is a low salary that is paid by the government; therefore firms' profit or loss does not have much influence on them. In contrast, firms with acquired PCs, particularly the managers of those firms, have interdependence with the state, which helps firms have more efficient monitoring and management, resulting in better performance. So, the hypothesis is as follows:

H3: Firms with acquired PCs have higher firm value than those with ascribed PCs.

3. Data and models

3.1. Data

Our data set covers the financial and non-financial information of the Vietnamese-listed firms on the two main stock exchanges in Vietnam including Hanoi Stock Exchange (HNX) and Ho Chi Minh Stock Exchange (HOSE). The financial information is provided by HNX and HOSE. We eliminate all financial firms from the sample. We also remove all firms with omitted financial information. We manually collect the non-financial information from annual reports. The data sample is strongly balanced panel data and incorporates the period from 2009 to 2014 with 1,365 observations of 273 firms.

3.2. Models

We use different sub-samples for different models to have pairwise comparisons. We first examine the link between ascribed PCs and FV with the hypothesis that firms with ascribed PCs have lower FV than firms without any PCs. By using the sub-sample of firms with acquired PCs and firms without any PCs, the baseline model is specified as follows:

$$VALUE_{it} = \alpha + \beta\,ASCRIBED\,PCS_{it} + \Sigma\,\Upsilon\,CONTROLS_{it} + \varepsilon_{it} \tag{1}$$

We use firm growth, leverage, firm size, board size and duality to control for factors that potentially affect FV in this model.

The sub-sample of firms with acquired PCs and firms without any PCs is used to test the effects of acquired PCs on FV with the following model:

$$VALUE_{it} = \alpha + \beta\,ACQUIRED\,PCS_{it} + \Sigma\,\Upsilon\,CONTROLS_{it} + \varepsilon_{it} \tag{2}$$

We continue to use firm growth, leverage, firm size, board size, duality and CO to control for factors that potentially affect FV in this model.

Moreover, we believe that the impact of acquired PCs is heterogeneous by the CO; hence, we further explore the importance of CO on the impact of PCs and FV. To do so, we use the sub-sample of firms with acquired PCs to test whether in acquired politically connected firms, those with concentration in ownership can have better firm value than others.

$$VALUE_{it} = \alpha + \beta\,CO_{it} + \Sigma\,\Upsilon\,CONTROLS_{it} + \varepsilon_{it} \tag{3a}$$

We continue to use a sub-sample of firms with acquired PCs and firms without any PCs to examine whether acquired politically connected firms with CO have better firm value than others with the following model:

$$VALUE_{it} = \alpha + \beta_1 ACQUIRED\,PCS_{it} + \beta_2 CO_{it} + \beta_3 ACQUIRED\,PCS_{it} * CO_{it} + \Upsilon\,CONTROLS_{it} + \varepsilon_{it} \tag{3b}$$

Model (4) is used to test whether firms with acquired PCs have higher FV than those with acquired PCs, because firms with ascribed PCs are usually known to be strongly bureaucratic and inefficient in performance. In comparison with firms with ascribed PCs, those with acquired PCs have the interdependence with the state, which can help those firms get preferential treatment from political powers without the strong bureaucracy in running business. We formulate the model as the same with model (1), but we just focus on the sub-sample of firms with PCs only.

$$VALUE_{it} = \alpha + \beta\,ACQUIRED\,PCS_{it} + \Sigma\,\Upsilon\,CONTROLS_{it} + \varepsilon_{it} \tag{4}$$

In all models, subscripts i and t present for firm and time. VALUE is the market valuation indicator. The two stock market valuation measures used to proxy for VALUE are Tobin's Q and the market-to-book ratio (MTB).

We confined firms with ascribed PCs to SOEs. We list a firm as SOE if the state owns more than 50% of the total shares. ASCRIBED PCs equals 1 if the firm is state-controlled and 0 otherwise. For acquired politically connected firms, we recognize those firms based on comparing the information of the firm and the top politicians of Vietnam. We regard that the firm is with acquired PCs when the firm is a private-owned enterprise and meets one of the following conditions:

(1) *CEO or chairman of the board has the same native hometown with one of the top politicians of Vietnam and the firm itself has headquarters or a representative office in Hanoi or Ho Chi Minh City.*

(2) *One of the members of the manager board of directors is/was a member of Parliament or Provincial People's Council.*

(3) *The firm is a former SOE.*

(4) *CEO or chairman of the board is a former government official/bureaucrat.*

We think that if the CEO or chairman of the firm has the same native hometown (at the district level) and the firm itself has headquarters or a representative office in the two biggest cities in Vietnam including Hanoi or Ho Chi Minh City, it can be easy to get the connections with politicians via the activities of the fellow-countrymen association (usually known under the name "Hội đồng hương"), where the top politicians are also members. The reason of focusing on just two biggest cities is because most of the activities of the top politicians happen in those cities; hence, it is easier for firms to get the connections. We do not focus on the measure of acquired PCs based on the membership of the Communist Party of Vietnam because the information of the management and director board that is available in annual reports or other official channels of the firms do not disclose such membership.

We define the firms with CO when the top five shareholders own more than 20% of the total share of the firm. We consider 20% because it is the minimum percentage of a firm's equity considered as a controlling interest (La Porta et al., 1999). We use firm growth, leverage, firm size, board size and duality to control for factors that potentially affect FV. Firm growth is measured by the growth speed (percentage) of total assets; firm size is the natural logarithm of total assets; duality is a dummy variable of whether or not the CEO of the firm is also the chairman of the board.

4. Results

4.1. Descriptive statistics

Table 1 shows the descriptive statistics and correlation coefficients of the variables employed in the analysis. It presents that more than 52% of the firm-year observations have connections with political powers, including 15.3% are with ascribed and 37.4% with acquired PCs. The table also tells that all correlation coefficients between independent variables are lower than 0.4, so they exclude the possibility of serious multi-collinearity (Deng et al., 2018; Sun et al., 2016; Xia et al., 2014).

4.2. Regression results

Table 2 presents the OLS estimation results of the heterogeneity effects of PCs on FV. In panel A of the table, all of the coefficients of ascribed PCs including models (1a) and (1b) are negative at 1% significance level; therefore, H1 is accepted. This suggests that SOEs, with strong connections with political powers, have lower FV than firms without any type of PCs.

Panel B shows the results of OLS estimates of models (2a&b) to have a pairwise comparison in FV between firms with acquired PCs and firms without any PCs. The result table shows that firms with acquired PCs have lower FV than firms without any type of PCs. It can be explained that with acquired PCs, firms can receive many benefits from the state, but firms have to also face agency problem. With PCs, firms usually need to make informal payments if they want to maintain the

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Table 1. Descriptive statistics and correlation coefficients										
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1 MTB	1									
2 Tobin's Q	0.91	1								
3 Ascribed PCs	−0.09	−0.12	1							
4 Acquired PCs	−0.07	−0.07	−0.33	1						
5 Growth	−0.02	−0.06	0.02	−0.12	1					
6 Leverage	0.46	0.30	−0.02	−0.09	0.18	1				
7 Firm size	−0.06	−0.09	−0.05	−0.12	0.16	0.34	1			
8 Board size	0.23	0.21	0.11	−0.03	0.06	0.17	0.02	1		
9 Duality	−0.17	−0.12	0.13	0.06	−0.07	−0.33	−0.11	−0.06	1	
10 OC	−0.06	−0.04	0.37	−0.07	0.00	−0.03	0.10	0.17	0.10	1
Mean	0.83	0.65	0.15	0.37	0.13	0.50	1227.70	4.60	0.65	0.50
SD	0.13	0.14	0.36	0.48	0.23	0.20	1730.98	0.81	0.48	0.50

Notes: MTB for market to book value; PC for political connection; CO for concentrated ownership.
MTB and Tobin's Q are two proxies for firm value. MTB equals market capitalization over net book value; Tobin's Q equals equity market value over equity book value. Ascribed PCs is a binary variable, equals one if the firm is an SOE and zero otherwise. Acquired PCs is a binary variable, equals one if the firm is acquired political connected and zero otherwise. Growth is asset growth rate. Leverage is measured by the ratio of total debt to total assets. Firm size is the natural logarithm of book value of total assets in billion VND (Firm size is the total assets in billion VND for mean and S. D.). Board size is the natural logarithm of total number of directors (Board size is the total number of directors for Mean and SD). Duality is a binary variable, equals one if the firm's CEO is also the chairman and zero otherwise. CO is a binary variable, equals one if the firm's top five shareholders own more than 20% of total shares and zero otherwise.
All variables are winsorized at 5% level.

connections, so it can also create the asymmetric information among stakeholders and the agency cost can be increased as the consequence. This result is consistent with the existing literature (Muttakin et al., 2015).

With the belief that PCs can still bring the benefit to the firms, panel C of the table shows the importance of CO on the impact of acquired PCs on FV. The sample is divided into two different sub-samples: firms with ascribed PCs; and firms with acquired PCs and without any PCs. From the first sub-sample, the regression results reveal that ascribed politically connected firms with CO can have higher FV than those with diffuse ownership. It means that CO can help firms with acquired PCs in improving FV. With the second sub-sample of firms with acquired PCs and firms without any PCs, the results present that while the coefficients of acquired PCs are significantly negative, the coefficients of the interaction between acquired PCs and CO are positively significant. It can be concluded that while firms with acquired PCs have lower FV than those without any type of PCs, acquired politically connected firms with CO have better FV than those with diffuse ownership and firms without any type of PCs.

The last panel of Table 2 presents the regression estimations results to test whether firms with acquired PCs have higher FV than those with acquired PCs by using the sub-sample of firms with acquired PCs and ascribed PCs. The results suggest that firms with acquired PCs have better FV than those with ascribed PCs.

As the data used contains a panel component, problems can occur with regard to cross-sectional characteristics as heteroscedasticity or time-series characteristics as autocorrelation and omitted variables. With those problems, fixed effects model and random effects model are the most usually estimations to address (Baird et al., 2012; Becchetti et al., 2015; Kabir & Thai, 2017). Yet, we take a robustness check for panel regression estimations. Accordingly, the Hausman test is used to test whether fixed or random effects model is chosen and the results indicate that

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Table 2. Estimation results: political connections and firm value				
Panel A. Ascribed PCs				
Sample	**Ascribed PC and non-PC firms**			
	OLS			
Model #	**(1a)**		**(1b)**	
D. V.	MTB		Tobin's Q	
	Coef.	p-value	Coef.	p-value
Ascribed PCs	−0.0474***	0.000	−0.0694***	0.000
Growth	−0.0590***	0.000	−0.0666***	0.001
Leverage	0.3430***	0.000	0.2635***	0.000
Firm size	−0.0229***	0.000	−0.0244***	0.000
Board size	0.1027***	0.000	0.1304***	0.000
Duality	0.0063	0.428	0.0053	0.579
Constant	0.7277***	0.000	0.5717***	0.000
Stock exchange controls	Yes		Yes	
Industry controls	Yes		Yes	
Year controls	Yes		Yes	
R Square	0.4041		0.2894	
N	854		854	
Panel B. Acquired PCs				
Sample	**Acquired PC and non-PC firms**			
	OLS			
Model #	**(2a)**		**(2b)**	
D. V.	MTB		Tobin's Q	
	Coef.	p-value	Coef.	p-value
Acquired PCs	−0.0344***	0.000	−0.0470***	0.000
Growth	−0.0421***	0.004	−0.0634***	0.000
Leverage	0.2914***	0.000	0.2207***	0.000
Firm size	−0.0198***	0.000	−0.0220***	0.000
Board size	0.1032***	0.000	0.1168***	0.000
Duality	−0.0087	0.196	−0.0109	0.178
CO	0.0035	0.596	0.0105	0.186
Constant	0.7149***	0.000	0.5564***	0.000
Stock exchange controls	Yes		Yes	
Industry controls	Yes		Yes	
Year controls	Yes		Yes	
R Square	0.3466		0.2358	
N	1156		1156	
Panel C. Acquired PCs and CO				
Sample	**Acquired PC firms**			
	OLS			
Model #	**(3a)**		**(3b)**	
D. V.	MTB		Tobin's Q	
	Coef.	p-value	Coef.	p-value

(*Continued*)

Table 2. (*Continued*)

Panel C. Acquired PCs and CO

Sample	Acquired PC firms			
	OLS			
Model #	(3a)		(3b)	
CO	0.1503***	0.000	0.1921***	0.000
Growth	−0.0327*	0.070	−0.0646***	0.002
Leverage	0.1731***	0.000	0.0610**	0.017
Firm size	−0.0142***	0.000	−0.0125***	0.004
Board size	0.0465*	0.084	0.0256	0.416
Duality	−0.0076	0.338	−0.0049	0.594
Constant	0.6591***	0.000	0.4645***	0.000
Stock exchange controls	Yes		Yes	
Industry controls	Yes		Yes	
Year controls	Yes		Yes	
R Square	0.6172		0.5821	
N	511		511	

Panel C. Acquired PCs and CO (cont'd)

Sample	Acquired PC and non-PC firms			
	OLS			
Model #	(3c)		(3d)	
D. V.	MTB		Tobin's Q	
	Coef.	p-value	Coef.	p-value
Acquired PCs	−0.1504***	0.000	−0.1880***	0.000
Growth	−0.0242	0.103	−0.0350**	0.047
Leverage	0.1603***	0.000	0.0527**	0.034
Firm size	−0.0069**	0.021	−0.0085**	0.016
Board size	0.0265	0.269	0.0182	0.523
Duality	0.0017	0.820	−0.0031	0.721
CO	−0.1125*	0.063	−0.1933***	0.007
Acquired PCs*CO	0.2592***	0.000	0.3139***	0.000
Growth*CO	−0.0168	0.456	−0.0383	0.154
Leverage*CO	0.0695**	0.018	0.0997***	0.004
Firm size*CO	−0.0152***	0.000	−0.0133***	0.005
Board size*CO	0.0433	0.229	0.0654	0.127
Duality*CO	−0.0074	0.502	0.0010	0.940
Constant	0.8560***	0.000	0.7576***	0.000
Stock exchange controls	Yes		Yes	
Industry controls	Yes		Yes	
Year controls	Yes		Yes	
R Square	0.5786		0.5113	
N	1156		1156	

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Panel D. Ascribed and acquired PCs				
Sample	Ascribed and acquired PC firms			
	OLS			
Model #	(4a)		(4b)	
D. V.	MTB		Tobin's Q	
	Coef.	p-value	Coef.	p-value
Acquired PCs	0.0180*	0.058	0.0265**	0.023
Growth	−0.0341*	0.069	−0.0487**	0.034
Leverage	0.3293***	0.000	0.2397***	0.000
Firm size	−0.0265***	0.000	−0.0274***	0.000
Board size	0.2031***	0.000	0.2305***	0.000
Duality	0.0009	0.916	0.0058	0.593
Constant	0.4341***	0.000	0.1803**	0.015
Stock exchange controls	Yes		Yes	
Industry controls	Yes		Yes	
Year controls	Yes		Yes	
R Square	0.4036		0.2681	
N	720		720	

Notes: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.
MTB for market to book value; PC for political connection; CO for concentrated ownership.
MTB and Tobin's Q are two proxies for firm value. MTB equals market capitalization over net book value; Tobin's Q equals equity market value over equity book value. Ascribed PCs is a binary variable, equals one if the firm is an SOE and zero otherwise. Acquired PCs is a binary variable, equals one if the firm is acquired political connected and zero otherwise. Growth is asset growth rate. Leverage is measured by the ratio of total debt to total assets. Firm size is the natural logarithm of book value of total assets. Board size is the natural logarithm of total number of directors. Duality is a binary variable, equals one if the firm's CEO is also the chairman and zero otherwise. CO is a binary variable, equals one if the firm's top five shareholders own more than 20% of total shares and zero otherwise. All variables are winsorized at 5% level.

the fixed effects model is more suitable. We continue to use F test to choose between OLS and fixed effects model. The test shows that the fixed effects model is the most suitable one.

The results from fixed effects model regression in the Table 3 also show the same with OLS estimations for the main variables. While both firms with ascribed and acquired PCs have lower firm value than those without any PCs; CO can help acquired politically connected firms in improving firm value with the explanation that CO in firms with acquired PCs can help those firms focus more on creating value from their PCs than those with diffuse ownership. Moreover, acquired politically connected firms with diffuse ownership may need to face with agency problem, which is brought by their PCs. The robustness check also confirms that SOEs are known as firms with ascribed PCs that have lower firm value than firms with acquired PCs.

5. Discussions and conclusion

Our results show that SOEs, known as ascribed politically connected firms, have lower FV than firms without any types of PCs. Besides, firms with acquired PCs have lower FV than non-politically connected firms. It can be explained with the argument that in emerging economies where there is a weak rule of law, weak regulatory environment, poor investor protection and high level of corruption, the business elites potentially exploit their political linkages to influence the system in accumulating their own wealth at the expense of general shareholders (H. Li et al., 2008; Muttakin et al., 2015). Hence, politically connected firms in any cases, especially acquired politically connected firms, have to make or bear the informal payments or the informal cost of creating connections with politicians, that is a big cause of lower firm value in those firms. Moreover, SOEs in emerging economies, especially in Vietnam, are always put

Table 3. Estimation results: political connections and firm value (fixed effects model)				
Sample	**Ascribed PC and non-PC firms**			
Model #	**(1a3)**		**(1a4)**	
D. V.	**MTB**		**Tobin's Q**	
	Coef.	**p-value**	**Coef.**	**p-value**
Panel A. Ascribed PCs				
Ascribed PCs	−0.0298**	0.023	−0.0594***	0.001
Growth	−0.0181**	0.038	−0.0335***	0.004
Leverage	0.3327***	0.000	0.2799***	0.000
Firm size	−0.0326***	0.001	−0.0276**	0.029
Board size	0.0161	0.250	0.0207	0.267
Duality	−0.0082*	0.078	−0.0117*	0.061
Constant	0.8613***	0.000	0.6776***	0.000
Stock exchange controls	No		No	
Industry controls	No		No	
Year controls	Yes		Yes	
N	854		854	
Panel B. Acquired PCs				
Acquired PCs	−0.0121***	0.002	−0.0218***	0.000
Growth	−0.0184**	0.011	−0.0383***	0.000
Leverage	0.3216***	0.000	0.2510***	0.000
Firm size	−0.0291***	0.000	−0.0337***	0.001
Board size	0.0177	0.127	0.0063	0.706
Duality	−0.0025	0.483	−0.0016	0.753
CO	0.0085**	0.026	0.0217***	0.000
Constant	0.8262***	0.000	0.7209***	0.000
Stock exchange controls	No		No	
Industry controls	No		No	
Year controls	Yes		Yes	
N	1156		1156	
Panel C. Acquired PCs and CO				
CO	0.0496***	0.000	0.0892***	0.000
Growth	−0.0025	0.813	−0.0203	0.210
Leverage	0.3611***	0.000	0.1777***	0.000
Firm size	−0.0395***	0.002	−0.0715***	0.000
Board size	−0.0158	0.397	−0.0079	0.780
Duality	−0.0013	0.835	0.0007	0.942
Constant	0.8746***	0.000	0.9167***	0.000
Stock exchange controls	No		No	
Industry controls	No		No	
Year controls	Yes		Yes	
N	511		511	
Panel C. Acquired PCs and CO (cont'd)				
Acquired PCs	−0.0454***	0.000	−0.0705***	0.000

(Continued)

Growth	−0.0224***	0.007	−0.0306**	0.011
Leverage	0.2902***	0.000	0.1966***	0.000
Firm size	−0.0303***	0.000	−0.0372***	0.000
Board size	0.0050	0.722	−0.0036	0.860
Duality	0.0013	0.754	−0.0013	0.831
CO	−0.0349	0.296	−0.0615	0.201
Acquired PCs*CO	0.0752***	0.000	0.1072***	0.000
Growth*CO	0.0152	0.197	−0.0068	0.688
Leverage*CO	−0.0258	0.145	−0.0003	0.990
Firm size*CO	−0.0022	0.399	0.0012	0.755
Board size*CO	0.0296	0.131	0.0227	0.421
Duality*CO	−0.0130**	0.036	−0.0037	0.685
Constant	0.8797***	0.000	0.8017***	0.000
Stock exchange controls	No		No	
Industry controls	No		No	
Year controls	Yes		Yes	
N	1156		1156	
Panel D. Ascribed and acquired PCs				
Acquired PCs	0.0154**	0.040	0.0204*	0.056
Growth	−0.0109	0.269	−0.0239*	0.090
Leverage	0.3753***	0.000	0.3004***	0.000
Firm size	−0.0248**	0.023	−0.0458***	0.003
Board size	−0.0106	0.539	−0.0132	0.593
Duality	0.0033	0.559	0.0074	0.353
Constant	0.7789***	0.000	0.7350***	0.000
Stock exchange controls	No		No	
Industry controls	No		No	
Year controls	Yes		Yes	
N	720		720	

Notes: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.
MTB for market to book value; PC for political connection; CO for concentrated ownership.
MTB and Tobin's Q are two proxies for firm value. MTB equals market capitalization over net book value; Tobin's Q equals equity market value over equity book value. Ascribed PCs is a binary variable, equals one if the firm is an SOE and zero otherwise. Acquired PCs is a binary variable, equals one if the firm is acquired political connected and zero otherwise. Growth is asset growth rate. Leverage is measured by the ratio of total debt to total assets. Firm size is the natural logarithm of book value of total assets. Board size is the natural logarithm of total number of directors. Duality is a binary variable, equals one if the firm's CEO is also the chairman and zero otherwise. CO is a binary variable, equals one if the firm's top five shareholders own more than 20% of total shares and zero otherwise. All variables are winsorized at 5% level.

under the political system (Nguyen, 2003) and enjoy many priorities (Nguyen, 2006) but they always claim a disproportionate share of national investment in land, property and physical assets with a less than proportionate increase in enterprise performance (Minor et al., 2018); so far this causes the low firm efficiency. The political and bureaucratic interference and ownership have made SOE's control and monitor systems for political interest other than effectiveness; that is the reason why SOEs, which are known as firms with ascribed PCs, have weaker motives to pursue profit and efficiency than those in privately owned firms.

As discussed, informal expenses can rise in acquired politically connected firms, but it cannot be disclaimed that with PC firms can receive many benefits from the political powers. In the case that firms can lower the costs brought from PCs and maximize the benefit, which they can get from their PCs, firms can get the advantages. We find that with concentration in ownership, acquired politically connected firms can have better FV than those with diffuse ownership and also firms without any PCs. It can be explained that in firms with diffuse ownership, acquired PCs can cause an increase in agency problems along with agency cost because of the problem of asymmetric information; but in contrast, acquired politically connected firms with CO can avoid the increase of agency problem. Moreover, CO can help acquired politically connected firms focusing more on maximizing profits or advantages they can get from their PCs. In the developed markets, a strong institutional setting and strong corporate governance may help shareholders in monitoring the PCs; but in emerging economies, with the absence of a strong institutional environment and strong corporate governance, political agents may engage in wealth expropriation at the expense of other shareholders, especially minority shareholders.

This study offers important implications for managers in emerging economies in building or using their own PCs. Previous studies indicate that PCs bring to the firms many benefits and advantages, including preferential access to credit, regulatory protection or government aid to financially distressed firms (Faccio, 2006; Fan et al., 2007; Gul, 2006; H. Li et al., 2008); however, our empirical results show that PCs are not always completely positive. Muttakin et al. (2015) also show that PCs can harm firm performance in non-family firms since the agency problem also comes with PCs. It also gives the implications for the governments of emerging countries in building a strong institutional setting as well as strong corporate governance regulations in order to have better and anti-corruption environments for firms, especially to protect the rights of minority shareholders. Since emerging economies are getting more investment from emerged countries since they have many advantages as cheaper labor and more advantaged regulation system, etc., building a better business environment is a prior and important task for the governments in order to get better investments from "big investors"; hence, the results of this study can also be a lesson for those economies in building up a transparent business environment with anti-corruption, strong corporate governance regulations and betters institutional setting.

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Notes
1. Vietnam is ranked 112 out of 168 countries in the 2015 Global Corruption Report. The score equals 31 in the Corruption Perceptions Index (CPI), which ranges between 100 (highly clean) and 0 (highly corrupt). The information is available at http://www.transparency.org/country#VNM.
2. Available at http://www.worldbank.org/en/country/vietnam/overview.
3. Vietnam scored 31 in the Corruption Perceptions Index (CPI), which ranges between 100 (highly clean) and 0

(highly corrupt). The information is available at http://www.transparency.org/country#VNM.

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