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University of Economics, Ho Chi Minh City

GRADUATION THESIS

Title:

Political connection and access to capital market: A study of Vietnamese listed firms

Instructor: Assoc. Prof. Lê Thị Phương Vy

Author: Trương Thế Hải

Student ID: 31191023250

Phone number: 0389754751

Email: haitruong.31191023250@st.ueh.edu.vn

Ho Chi Minh City

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Abstract

The study discusses how political relationships play a critical role in facilitating firms' access to the loan capital market. The research demonstrates via the results of tabular data regression that firms with political connections have less trouble getting financing in the market. This study corroborates prior research on the effect of political connections on the firm's capacity to access financial markets outside the company by lowering regulatory obstacles and decreasing market information asymmetry.

Keywords: Political connections, debt ratio, access to finance.

Instructor's comments

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Table of Abbreviations

JSC	Joint Stock Company
IOSCO	International Organization of Securities Commissions
OLS	Ordinary Least Square
FEM	Fixed-effects model
REM	Random-effects model
PBOC	People's Bank of China
SOE	State-owned Enterprise
SOCB	State-owned Commercial bank
HOSE	Ho Chi Minh Stock Exchange
HNX	Ha Noi Stock Exchange
CEO	Chief Executive Officer

Chapter 1: Introduction

1.1. Research motivation

The capital market has a substantial impact on the economy and local businesses, which facilitates the exchange of stocks, bonds, currencies, and other financial assets between buyers and sellers. Not only does the capital market enable traders to buy and sell stocks and bonds, but it also enables firms to obtain funds for expansion. Companies lower the risk and expense of accessing financial capital because they have access to a dependable market for obtaining funds.

However, not all corporations have simple access to financial markets due to a variety of circumstances, including business and management characteristics, among others. According to a 2015 report by the International Organization of Securities Commissions (IOSCO), access to capital may be problematic for all businesses, particularly small and medium-sized enterprises.

Realizing these obstacles in gaining access to the capital market, as well as the author's expertise gained through study and research in the area of Finance, this topic was chosen as the subject of the author's graduation thesis in order to explain if political connections and the capacity to access the capital market of Vietnamese businesses are related.

1.2. Research question

This study analyses the relationship between political connections and the capacity to access the capital market in Vietnam, as measured by three types of OLS regression models: the fixed-effects model (FEM), the robust fixed-effects model (FEM-robust), and the random-effects model (REM), with the results reported in four columns of Table 6

A research question has been derived:

Does political connection have an influence on a firm's ability to access financial markets (measured as a firm's ratio of total debt to total assets)?

1.3. Research contribution

The topic is expected to be completed following the proposed research objectives. Therefore, it will show that the study results are statistically significant, from which conclusions can be drawn that the political connection does or does not positively affect the firm's ability to access financial markets.

The author believes that the regression findings suggest that political connections have a favorable impact on the financial leverage of firms and that it enhances firms' access to external capital.

Since then, corporations will realize the significance of maintaining links inside political circles. If political connections have an unacceptably beneficial impact on firms' ability to gain access to capital markets, policymakers have the opportunity to make appropriate preparations for the future as well.

1.4. Research method

The research method used in the thesis is the quantitative research method. It is used to quantify the relationship factors, model, and hypothesis and test the hypothesis's correctness.

The phenomena are explained by collecting numerical data from 2009 to 2020 and then analyzing them using the research model (descriptive statistics, correlation matrix, and regression results). Quantitative techniques (tools) include observing, sifting data, and running models.

1.5. Research structure

The layout of the graduation thesis consists of five main chapters:

Chapter 1 is the introductory chapter with the content stating the most general parts of the thesis so that readers have the most general understanding; including the author's reasoning for selecting the topic, the question the thesis seeks to answer, and the contribution the thesis makes to businesses and policymakers through the research methodology.

Chapter 2 is the theoretical basis chapter and includes the following definitions: definition of political relationship, the influence of political relationship on access to finance, and leverage level. The author also adds a section titled Earlier Research and Hypotheses so that readers can better comprehend previous research publications on the same issue.

Chapter 3 is the chapter on research models, which consists of three major sections: data collection, the research model (equation), and quantifiable model variables. In this chapter, the author will explain where the data came from and whether it is truly dependable, how to construct a research model, and the composition of the model's variables.

Chapter 4 contains the research results. The author will present descriptive statistics generated by Stata software: General statistical results regarding the model's variables,

descriptive statistics results of variables in JSCs that have political connections, descriptive statistics results of variables in JSCs that do not have political connections, statistical results describing variables with political connections. The author will next indicate whether the correlation coefficient between the variables is greater or lesser, positive or negative, and experimental inferences will be drawn from the outcomes of running the correlation matrix. The author concludes by employing three forms of OLS regression models: fixed effects models (FEM), robust fixed effects models (FEM-robust), and random effects models (REM). The author performs this on purpose to determine if the regression findings indicate that political contacts have a positive influence on the financial leverage of enterprises or if it improves firms' access to external funding.

Chapter 5 serves as the conclusion. Based on the contents of the preceding chapters (combining theoretical foundation and data analysis), the author will outline the key concepts and respond to the initial queries. In this chapter, the author will also include a section on the topic's limits and a comparison with the results of past studies by other writers to determine how similar or different their results are. In conclusion, the implication of the thesis will open up a valuable value not only for enterprises but also for policymakers, allowing them to look back on things in the most objective manner, and enabling them to make the right and precise decisions.

Chapter 2: Literature Review

2.1. Theoretical basis and previous study

2.1.1. Definition of political connection

The majority of prior research has characterized political connections as personal connections between politicians and corporations, whether via personal contacts or ownership of corporate shares. Additionally, preliminary studies have shown that political connections might assist enterprises in benefiting from more favorable circumstances than other firms. (Fisman, 2001; Johnson & Mitton, 2003; and Faccio, 2006). Specifically, Qin (2011) and prior academics claimed that firms might establish political connections with the government through four mechanisms: social networking, information view, reputation build-up, and individual preference.

Social Networking: Members of corporate boards of directors or friends of management who formerly worked for the government will have a significant impact on business performance. This element may be seen as a source of company social capital. In nations that value connections, this kind of social capital might make it easier for firms to obtain government resources than enterprises without contacts.

Information View: Consistent with Porta et al. (2003), experts believe that in an information asymmetry environment, government officials often place a higher premium on the enterprises with whom they have dealt. Other firms with whom we have worked or had a close connection. Consequently, customers often give these organizations a higher grade for project bids. As a result, there will be a temptation to direct national resources to enterprises with political connections to guarantee that government investments are profitable.

Reputation Build-up: Once government personnel ascends to top leadership positions, the firm or sector in which they previously worked will get significant public attention. If these enterprises succeed, they will get increasing public support, and their image and reputation in the political arena will improve. Such positive impressions will significantly aid their future careers. Consequently, government officials often want to transfer resources to enterprises, industries, or locations in which they previously worked to support the development of these businesses and industries and thereby improve their reputations.

Individual Preference: Leaders are often promoted via industry or local government. As a result, one might argue that the company they worked for served as a springboard for their successful careers. As a result, when they hold public office positions, they are often more likely to support firms or places where they previously worked.

Existing studies propose diverse definitions of political connections based on their respective research contexts. Some studies define political connections as current or prior employment in a government office or the military (e.g. Fan et al., 2007; Huang

et al., 2012), whilst others may focus on the top executives' political party membership (Li et al., 2008). China's current banking system dates back to 1948, when the People's Bank of China (PBOC), the country's central bank, was established, along with four state-owned banks that performed all banking functions. Despite progress in the reform of China's financial system, the People's Bank of China and four state-owned banks remain subject to administrative oversight.

2.1.2. The influence of political connection on the possible access to finance and leverage levels.

In recent years, numerous studies have examined the relationships between corporations and politicians. Political connections are regarded to play a pivotal role in aiding enterprises' financing activities, particularly in emerging nations where financial limits and government interventions are severe. Previous research has shown that firms with political connections are more likely to obtain regulatory approval to raise public capital (Chen and Yuan, 2004; Piotroski and Zhang, 2012), face fewer obstacles to obtaining bank loans (also known as "relationship lending"), and are subject to lower interest rates and collateral requirements (e.g. Khwaja and Mian, 2005; Charumilind et al., 2006; Fraser et al., 2006; Boubakri et al., 2012).

According to several recent research on corporate finance, political connections significantly impact an enterprise's success. Previous evidence indicates that informal relationships such as political connections and social networks formed through business clubs reduce friction in credit markets and enable businesses to access formal sources of finance, such as bank loans the stock market. (Agrawal and Knoeber, 2001; Khwaja and Mian, 2005; Adhikari et al., 2006; Faccio, 2006; Faccio et al., 2006; Claessens et al., 2008; Le and Nguyen, 2009; Liu et al., 2013; Engelberg et al., 2012; Haselmann et al., 2013). As prior research has shown, corporations with political ties obtain preferential treatment. (Fisman, 2001; Johnson & Mitton, 2003; Faccio, 2006). Political connections give businesses with a variety of advantages because it helps firms to obtain official sources of money, such as bank loans and stock issue, avoid government restrictions (Berkman et al., 2010; Chen et al., 2011; Liu et al., 2013), thereby enhancing firm performance (Johnson & Mitton, 2003), boosting investment activities, which will eventually lead to an increase in the business's worth. (Roberts, 1990; Fisman, 2001; and Ramalho, 2007). The formation of political connections plays an essential role in the success of enterprises since Vietnam has the characteristics of a transition economy. However, the empirical data in this area remains primarily weak.

Politically connected managers assist enterprises in obtaining formal finance by gaining rent from government-owned banks/regulatory government decrees. (Khwaja and Mian, 2005; Li et al., 2008; Liu et al., 2013). However, non-state-owned firms continue to encounter several challenges in conducting their businesses, most notably the potential of being refused when applying for bank loans, particularly from state-owned commercial banks or institutions controlled by the government. The majority of this money is directed toward state-owned businesses (SOEs) or sectors deemed desirable by the government. (Johnson et al., 2000; McMillan & Woodruff, 1999; and Guriev, 2004). Non-state firms are often the target of misconduct, owing to the rigorous yet sometimes ambiguous and conflicting restrictions found in official papers. A strong

connection with the institution may assist a firm in navigating vexing rules, navigating legal hurdles in the case of a disagreement, and avoiding potential prejudice. (Hay & Shleifer, 1998; McMillan & Woodruff, 1999; and Frye & Zhuravskaia, 2000). To the author's knowledge, no in-depth research has been undertaken in Vietnam to analyze the influence of political connections on commercial activity. As a result, it is crucial to investigate the extent to which political connections affect enterprises' access to capital markets, as the study's findings may have significant consequences for policymakers and investors.

Numerous studies have been conducted on the relationships between businesses and politicians in recent years. Political connections are critical in enabling enterprises' financing operations, particularly in developing nations, where financial limits and government interference are severe. Previous research indicates that firms with political ties are more likely to obtain regulatory approval for public capital raising (Chen and Yuan, 2004; Piotroski and Zhang, 2012), face fewer barriers to obtaining bank loans (also known as "relationship lending"), and pay lower interest rates and require less collateral (e.g Khwaja and Mian, 2005; Charumilind et al., 2006; Fraser et al., 2006; Boubakri et al., 2012).

Certain studies assess the businesses' future performance and market impressions obtained by politically connected firms. Faccio and Parsley (2009) discover that a rapid loss of political connections results in a market-adjusted 1.7 percent fall in company value, which is more evident for family businesses. Similarly, Bunkanwanicha et al. (2013) discover that when a member of a controlling family marries a partner from a prominent business or political family, the stock price of the family firm increases by 2.3 percent within 11 days (from around the wedding). The abnormal returns are typically even higher when family firms' operations rely on extensive networks. These findings suggest that the stock market may see political relationships as important social capital.

According to Modigliani and Miller's trade-off theory of capital structure (Trade-off Theory), a firm's value improves with financial leverage under a corporate income tax environment. This idea was eventually expanded to include expenses connected with financial difficulty and bankruptcy. As a result, firms should borrow optimally when the marginal benefit of the tax shelter equals the marginal cost of bankruptcy risk. Kornai (1979, 1986), in his theory of "soft" and "hard" budget constraints, said that in the social economy, firms have "soft" budget constraints (Soft Budget Constrained) when they do not face significant insolvency risk due to government backing. Krueger (1974) argues in his theory of "a society seeking superior economic profit" (Rent-Seeking Society) that certain enterprises frequently seek superior economic benefits through bribery, smuggling, corruption, or conducting business on the black market, rather than competing legally in a market-oriented economy (Market - Oriented Economies). According to Khwaja and Mian (2005), companies with political connections have a distinct advantage over other firms in delivering economic advantages at a lower cost of capital. Thus, based on the trade-off theory of capital structure, enterprises with political connections to "soft" budget limitations and higher economic advantages may raise the degree of debt in their capital structure while minimizing the cost of financial distress.

Additionally, firms would prefer debt above issuing shares when internal capital is depleted, according to the "Pecking Order Theory" of capital structure. According to Market-Timing Theory, a firm's capital structure is the outcome of a lengthy process in which businesses time the debt market. Businesses rely on debt funding when loan terms are advantageous and vice versa. Thus, according to these capital structure theories, companies with political connections and easy access to bank loans tend to have a greater debt-to-equity ratio than enterprises with no relationship.

Khwaja and Mian (2005) demonstrate that in developing countries, firms with political connections receive significant incentives to access external capital and that government banks frequently provide these concessional loans. In contrast, private banks made no distinction between firms with and without political connections. The explanation is that private banks often have "hard" budget limits and are unable to provide risky loans. Additionally, the research demonstrates that enterprises with links to government officials would get preferential treatment when it comes to obtaining financing from state-owned banks in developing nations. As a result, firms with political connections will have a stronger economic advantage than others, as they will benefit from cheaper finance costs. The advantages of political connections, on the other hand, are not limitless. Safeguard requirements prohibit banks from lending an excessive amount to a single consumer. A restriction may be established to alleviate suspicion. To explain why enterprises with political connections have preferred access to capital, the author contends that firms with political connections may influence bankers at state-owned banks, therefore earning exceptional economic benefits. The stronger the bond, the more sway one has. While state-owned banks survived despite inefficient lending due to "soft" budget limitations, private banks failed (Kornai 1979, 1986). On the other hand, the preference for enterprises with political connections may be explained by social loans. This argument is predicated on two basic assumptions: (1) firms with political connections are more likely to engage in high-impact social initiatives, and (2) state-owned banks put a higher premium on social benefits than private banks. With these two assumptions, we may argue that allocating financing to firms with political linkages does not show corruption but rather the participants' interests and wants to be accomplished via social projects.

Firms obtain trade credit for two distinct reasons. Previous research suggests that enterprises generally utilize trade credit to address financial restrictions. The finding of Ge and Qiu (2007) supports the assumption that in China, trade credit is used as an alternative source of finance rather than for operating necessities. However, the literature reveals that, in addition to financial constraints, factors impacting the volume of trade credit taking also relate to the nature of the transacted good, such as differentiated products, services, and standardized goods (Fabbri and Menichini, 2010; Giannetti et al., 2011).

Typically, political regime transition presents exogenous shocks to the study of the function of political connections. After Suharto's resignation, Leuz and Oberholzer-Gee (2006) examine changes in the financial strategies of politically connected enterprises in Indonesia. Faccio and Parsley (2009) illustrate the market's reaction to such an occurrence by finding a sudden breach in political connections. China provides a natural laboratory for the study of political connections. In China, building and maintaining

political connections is frequently linked to rent-seeking behavior. Cai et al. (2011) and Chen et al. (2013) have demonstrated that corruption can be utilized in exchange for reduced government expropriation and improved government protection and services at the enterprise level. These findings largely explain why corruption has become so pervasive in China over the past few decades. In 2014, China scored 100th on the Corruption Perception Index out of 168 countries. According to Claessens et al. (2008), China is also among the worst nations in terms of political freedom and protection of property rights. In order to combat corruption, Chinese President Xi Jinping launched an anti-corruption campaign in 2011, gaining widespread media attention and revealing a number of problematic issues. This campaign pulled down a big number of Communist Party officials by the end of March 2015. According to the official records of the party's Central Commission for Discipline (CCD), more than 336,000 party officials at various levels, including 98 vice ministers or officials above that level, have been investigated or arrested. This event provides the author with the opportunity to identify the termination of political connections in firms that were involved in corruption cases or were connected to corrupt bureaucrats through family or friendship, allowing them to study the role of political connections in trade credit taking in a more exogenous manner.

2.2. Previous research & Hypothesis

2.2.1. Previous research

Li et al.'s (2008) 's research is a standout example of the political connections' impact on the performance of private firms (SOEs) in China, particularly in terms of capacity and capital market access. After controlling for factors such as source quality, human capital, and other important variables, the study team discovered that political connections had a beneficial influence on the performance of firms. The team then dug further into how political connections affected company performance and discovered that in a transitional economy like China, political connections have a greater impact on firm performance than in mature economies, owing to China's distinctive legal institutions and business culture. To be more precise, the political connection assists private firms in overcoming legal and discriminatory barriers. Additionally, research indicates that establishing a relationship with the government enables private firms to get loans from SOCBs or other state agencies. Additionally, the political connection instills trust in them when they encounter difficulties with the legal system, such as increased confidence in utilizing the courts to resolve commercial conflicts. Finally, this research finds that the political connection has a bigger influence on company performance in locations with weaker market institutions and law enforcement capacities.

Similarly, Claessens et al. (2008) found that when they examined the influence of political connections on firms' capacity to access capital markets in Brazil between 1998 and 2002, they discovered that political connections are significant via financial incentives. Firms that donate to the election campaign get a greater dividend and have easier access to financial markets than other businesses. This research demonstrates that donations to elections have benefited corporations. Specifically, after adjusting for unobserved company characteristics (which might distort the findings), the study team

discovered that the capacity of enterprises to obtain capital rose after each election, even if the return on total assets was not greater. The economic worth of rents acquired by politically linked enterprises after two elections is estimated to be at least 0.2 percent of the gross domestic product each year in this research.

A collection of papers investigates the character of politically connected firms, implying those firms are more readily able to obtain an operating advantage. For example, politically connected firms have better access to external finance, such as loans from banks or other state institutions (Claessens et al., 2008; Fan et al., 2008; Li et al., 2008), as well as the priority to list in security markets (Chen and Yuan, 2004; Francis et al., 2009; Piotroski and Zhang, 2012; Boubakri et al., 2012). Meanwhile, politically connected firms are more immune to government regulations, eliciting more regulatory favors, more subsidies, and tax benefits (Li et al., 2008; Wu et al., 2012; Lin et al., 2015). When they suffer from financial stress, political connections usually lead to firms being offered preferential government bailouts (Faccio et al., 2006). Instead of examining the benefits acquired by politically connected enterprises, several studies analyze their future performance and market perceptions. Faccio and Parsley (2009) find that a rapid break in political connections results in a 1.7% market-adjusted loss in the value of a company, and that this decline is most pronounced for family-owned businesses. Similarly, Bunkanwanicha et al. (2013) find that when a member of a controlling family marries a partner from a prominent business or political family, the family firm's stock price increases 2.3% within 11 days (around the wedding), and the abnormal returns tend to be even higher when family firms' operations rely on extensive networks. According to these studies, the stock market may view political relationships as significant social capital. Unique operating advantages and improved market perception may enhance the creditworthiness of politically linked enterprises, hence increasing the willingness of suppliers to extend trade credit.

Vu Viet Quang & Le Thi Phuong Vy (2016) have collected accounting data and stock prices of non-financial companies listed on the Vietnam Stock Exchange (2009 to 2013) on Datastream and on the website of HOSE and HNX. The author has determined, after analyzing the research data, that they are compatible with prior investigations by Li et al (2008) or Claessens et al (2008). The following explains the positive influence of the political connections on financial leverage: The political connections make it easier for enterprises to obtain incentives from state-owned commercial banks, so assisting businesses in reducing discriminatory treatment, overcoming legal difficulties, and minimizing information asymmetries and barriers. As a result, both the cost of external borrowing and the company's access to capital markets will reduce. The conclusions of this analysis have significant policy implications, namely that the government and SOCBs must continue to enhance the legal system, promote openness, and treat all firms equally. Everyone has equal access to loans, with or without an institutional connection. However, this study cannot avoid drawbacks such as limited confidence in the regression results because the model does not fully account for the influence of other factors. In addition, it is vital to evaluate the influence of the institutional relationship on the ability to access financial markets, on the degree of investment above or below the enterprise level, and on the performance and value of the firm. The author hopes that additional studies will eliminate these drawbacks.

2.2.2. Hypothesis

Private firms in transition economies and with a relationship-oriented corporate culture often encounter several hurdles, including the legacy of the planned economy and a lack of financial institution growth, as well as impediments resulting from SOE dominance of several critical sectors of the economy (Li et al., 2008). As a result, private firms often face barriers to borrowing from state-controlled commercial banks, as a significant portion of this money is reserved for SOEs (Nee, 1992; Brandt & Li, 2003). To be more exact, one of the primary distinctions between SOEs and private enterprises is access to bank financing. While bank credit is a critical source of capital for the development of private enterprises in developing countries in general and transition economies in particular, the political connections between banks and enterprises can assist enterprises in overcoming obstacles and easily accessing capital sources (Li et al., 2008). As a result, the author argues that the following hypothesis is possible for JSCs listed on HOSE:

H1: Political connections have a beneficial influence on an enterprise's capacity to access financial markets (measured by the ratio of total debt to total assets of enterprises).

2.3. Conclusion

First, we must examine the meaning of political connections. There are numerous inconsistent statements concerning this subject. For instance, Fan et al. (2007) and Huang et al. 2012 (2012) stipulate that a person must occupy a government or military job in order to have political connections. According to Li et al. (2008), those with political connections are the ones who may focus on the political party membership of senior executives. Nonetheless, there is one constant. Firms will gain political connections with the government so long as they utilize one of the following four mechanisms: social networking, information perspective, reputation building, and individual preference (Qin (2011) and previous academics).

Second, based on the author's analysis of numerous works of literature, we may assert that enterprises with political connections, particularly in developing nations, have substantial incentives to acquire external capital and that government banks usually grant these concessional loans.

Nonetheless, corporations with political connections have a bad side, as Faccio and Parsley (2009) uncover a rapid rupture in political connections. Extensive research conducted in China by Cai et al. (2011), Chen et al. (2013), and Claessens et al. (2008) mostly described the case.

The author argues that H1 is possible for JSCs listed on HOSE because he believes it is advantageous for Vietnam if the enterprises gain political links, as they will have easier access to financial sources (Li et al., 2008) and will find it less difficult to overcome obstacles.

Chapter 3: Research Model

3.1. Research model introduction

It is evident from a review of the existing literature that research on Vietnam's firms in this field of study is lacking and/or limited, which motivates further investigation into the relationships between political connections and access to the capital market, as well as other influential variables.

3.2. Data

Data collection has been collected on DataStream's database and from Ho Chi Minh City Stock Exchange (HOSE) website in order to gain research-related information from each director/leader/manager of those data-collected firms. For the period 2009 to 2020, this research utilizes panel data combined with accounting data from the financial statements of firms registered on the Ho Chi Minh City Stock Exchange (HOSE). The datasets were used to gain a large number of data results in order to conduct an effective correlation and regression analysis.

An advantage of using DataStream's database and the HOSE website within this study is to boost the reliability of the data collected. The author manually collects political connections data from annual reports and the history of management's employment at firms listed on HOSE. This is an imbalanced panel data set due to the fact that certain firms have not been listed on the exchange or have been delisted, or have not been published over the years of observation.

The dataset includes listed firms' stock codes, year data, company founding year, gender, birth year, academic level (0-4), position holding (0-4), ex-related-government job level (0-3), ex-related-state enterprises job level (0-3), time working at the company level (0-4), and additional information that should be noted for future research. The higher the level they get, the more significant they are.

Following Faccio (2006), Fan et al. (2007), and Chen et al. (2011), author manually collects background information about senior executives and quantify firms' political connections based on the background of a company's chairman or CEO. If the chairman or chief executive officer is a current or former government or military officer, we consider this company to be politically connected. Specifically, the current and previous experience must involve work in central or local government ministries, the military, the People's Congress (PC), the People's Court and Procuratorate, or the Vietnamese People's Political Consultative Conference.

3.3. Model for research

To investigate the effect of political connections on access to capital markets, the author drew on prior research by Qin (2011), Li et al. (2008), and Vu Viet Quang & Le Thi Phuong Vy (2016). Taking the following research model into consideration:

$Lev_{it} = \alpha + \beta_1 Gov_{i,t} + \beta_2 State_{i,t} + \gamma X_{i,t} + \varepsilon_{i,t}$

Meanwhile:

Lev_{it}: The ratio of debt to total assets of enterprise i at time t;

$Gov_{i,t}$: Variable relationship with the Government of DN i at time t;

$State_{i,t}$: Variable relationship with state-owned enterprises of enterprise i at time t;

$X_{i,t}$: A vector of control variables.

The hypothesis suggested a positive correlation between and access to capital markets. Therefore, according to this hypothesis, the signs of β1 and β2 in the above regression equation are expected to be positive and statistically significant.

3.4. Model variables that are quantifiable

The author cited the model measurement approach in a few earlier research studies and discovered heterogeneity as a result of variances in geographical locations (institutions) and time periods studied. For example, Fisman (2001) conducted research in Indonesia, whereas Schoenherr (2014) conducted research in Korea, defining political connections as those between corporations and the president's family. While Fan et al. (2007), Boubakri et al. (2008), and Li et al. (2008) describe firms with political connections as those whose CEO has or works for the government. And in the instance of Vietnamese firms, which include a high proportion of formerly state-owned enterprises (SOEs) and corporate executives who formerly worked for the government, the author chose to measure the following variables:

Dependent variables:

Access to capital markets (Leverage): Financial leverage is a proxy for an enterprise's capacity to access capital markets (Lev). Financial leverage is calculated in a variety of ways for businesses, including total debt, total short-term debt, and total long-term debt relative to total assets (Pandey, 2001; Frank & Goyal, 2009). As a proxy for access to capital markets, this research will utilize the ratio of total debt (including short-term bank loans and long-term debt) to firms' total assets.

Independent variables:

The variable reflecting the relationship with the government (gov) is set to 1 if the enterprise's leading member (CEO or chairman of the board of directors) has a

connection with the government (by virtue of having worked for the government), and to 0 in all other situations.

The variable indicating the enterprise's relationship with SOEs (state) has a value of 1 if the enterprise's leading member has worked for and holds or does not hold a senior leadership position for the SOE (the predecessor of the current JSC) or SOEs in the same industry), and 0 in all other cases.

The author chose a few key parameters as control variables in his study model based on prior research on the factors impacting the capital structure of enterprises:

Figure 1. Control variables and measurements

No table of figures entries found.	**Measurements**
Size of corporations (Size)	Logarit of total assets
Total asset utilization efficiency (Sales_TA)	Net revenue divided by total assets
Return on assets (ROA)	$\text{ROA}=\frac{\text{Net Income}}{\text{Total Assets}}$
Earnings per share (EPS)	$\text{EPS}=\frac{\text{Net Income} - \text{Preferred Dividends}}{\text{End}-\text{of}-\text{Period Common Shares Outstanding}}$

Source: Self-collecting data

They can be explained by applying an analytical method:

Size of corporations (Size) with the logarithm of total assets measurement, adjusts for scale economies and market power attributable to a firm's size (Hitt et al., 1997; Lang and Stulz, 1994; Nachum, 2004; Tallman and Li, 1996). Firm size is measured in a variety of ways, including a natural log of sales and the natural log of total assets.

Total asset utilization efficiency (Sales_TA) with net revenue divided by total assets, computes the total revenue generated for each dollar of an organization's assets. For instance, a corporation with an asset utilization ratio of 52% earned $0.52 for every dollar of assets it had. A rising asset utilization indicates that the organization is utilizing its assets more efficiently. This ratio is commonly used to compare the efficiency of an organization over time.

Return on assets (ROA) with ROA measurement, refers to a financial ratio that measures a company's profitability relative to its total assets. ROA can be used by corporate management, analysts, and investors to determine the profitability of a company's asset use. Typically, the metric is stated as a percentage using the net income and average assets of a corporation. A greater ROA implies that a firm is more effective and efficient in managing its balance sheet to create profits, whereas a lower ROA suggests that there is space for improvement. As a result of a higher return on investment rate, a higher ROA number suggests a more successful business. This figure indicates the company's return on all assets (or funds) provided (Wild et al, 2005). Any variables that affect ROA are (a). The Liquidity Ratio compares a company's current assets to its current liabilities to determine its ability to satisfy its short-term obligations (b). Asset Management Ratio is "the ratio that assesses the effectiveness with which a corporation manages its assets" (Brigham and Houston, 2001: 81). (c). Debt Management Ratio is a measure of a company's capacity to satisfy its long-term obligations (debt) used to finance the company's operations.

Earnings per share (EPS) with EPS measurement, is divided into 2 types including basic EPS and diluted EPS. If investors are just concerned with basic EPS, omitting future diluted EPS predictions can result in erroneous conclusions. Therefore, the income statement of the corporation must always have two indicators: basic EPS and diluted EPS. In fact, investors can locate the company's EPS in the enterprise's consolidated financial statements (joint stock company). A company with a consistent increase in EPS over several years is regarded to have a solid basis. However, investors should not rely just on EPS as a financial metric, but rather consider it alongside the study of other metrics. In which the most significant indicators include the P/E (price-to-earnings) ratio, the ROA (return on assets), and the ROE (net return on equity) ratio. Cash payout and a quick payout ratio.

3.5. Data analysis

The most significant aspect of this graduation thesis is data analysis. Data analysis summarizes gathered information. It requires the analysis of evidence acquired through the application of analytic and logical reasoning in order to establish whether hypothesis H1 is correct.

Therefore, the author employs three basic phases to ascertain whether or not hypothesis H1 is correct.

First phase: The author obtains data. The author has already outlined the measures he took to manage the data in Section 3.2. All obtained information would be uploaded to Microsoft Excel.

Second phase: Not all of the author's collected data are clean and accurate, and some data are missing. Therefore, the author must remove the null value from the row for the data analysis applications to function properly. Additionally, he must ensure that the data can potentially answer his inquiry. This is referred to as the data editing step, during which the researchers must verify that the submitted data is clear of such flaws. To alter the raw data and make it suitable for analysis, they must execute required and outlier checks.

Final phase: After the data has been prepared for the examination, researchers are open to employing further research and data analysis techniques to draw significant insights. Statistical methods are the preferred method for analyzing numerical data. Initially, the author utilized Stata's 'Descriptive Statistics' function to characterize data (observations, mean, standard deviation, min, max). The author then continued to utilize Stata to generate the correlation matrix between model variables. Correlation measures the relationship between two or more variables; it is also known as linear dependence. A correlation matrix is just a table that displays the correlation coefficients between variables. In each cell of the table, the correlation between two variables is displayed. Finally, the author performs a regression. The author obtains the regression findings using three types of OLS regression models: the fixed-effects model (FEM), the robust fixed-effects model (FEM-robust), and the random-effects model (REM). After running the models and getting a p-value less than 0.05 using the Hausman test, the author selects the fixed effects model and the FEM-robust model for use in drawing conclusions.

Chapter 4: Results

4.1. Descriptive statistics

The following tables describe the variables included in the model: Table 1; Tables 2, 3, and 4. To begin, Table 1 contains the statistical description of the dependent variable (Lev), the independent variable (Political), and the model's other control variables. Following that, Tables 2 and 3 summarize the descriptive statistics for the variables utilized in the regression model, categorizing them as firms with political connections (Political = 1) and enterprises without political connections (Political = 0). According to the statistical data, the mean value of the variables relating to the group's access to the capital market is much greater than that of the group of firms without a political connection. Because the ratio of total debt to total assets in the group of JSCs with a political connection (24%) is greater than this ratio in the group of JSCs without a political relationship (21.26%). The statistics for this variable in the two groups of JSCs included in the sample have aided in partially establishing the viability of this study's premise.

Table 1. General statistical results of the model's variables

Unit: Number

Variable	Obs	Mean	Std. Dev.	Min	Max
Lev	2.104	23,09681	19,26295	0	80,97518
Political	2.104	,6365796	,4810987	0	1
Size	2.104	12,12027	,6275842	9,280686	14,69459
Sales_TA	2.104	1,012528	1,133583	-,0253349	12,73354
ROA	2.104	6,90912	8,880063	-99,94273	59,80272
EPS	2.104	1765,539	2028,934	-7903,538	18662,55

Source: Exported from Stata

Table 2. Statistical description of variables in JSCs having political connections

Unit: Number

Variable	Obs	Mean	Std. Dev.	Min	Max
Lev	1.340	24,0039	19,60729	0	80,97518
Size	1.340	12,12236	,6119085	10,27763	14,69459
Sales_TA	1.340	,9890842	1,185147	-,0032087	12,73354
ROA	1.340	6,875521	7,644585	-22,08062	49,63121
EPS	1.340	1826,657	2051,887	-5906,143	18662,55

Source: Exported from Stata

Table 3. Statistical description of variables in JSCs not having political connections

Unit: Number

Variable	Obs	Mean	Std. Dev.	Min	Max
Lev	764	21,25976	18,6552	0	74,45397
Size	764	12,11661	,6545645	9,280686	14,11896
Sales_TA	764	1,053646	1,036442	-,0253349	6,134955
ROA	764	6,96805	10,71361	-99,94273	59,80272
EPS	764	1658,343	1984,825	-7903,538	11300,85

Source: Exported from Stata

Table 4. Political connections variables

Unit: Number

Variable	Obs	Mean	Std. Dev.	Min	Max
Political	2.100	,6365796	,4810987	0	1
Gov	2.100	,3824228	,4860945	0	1
State	2.100	,3995249	,4899171	0	1
gov1	2.100	,6190476	,4857366	0	1
gov2	2.100	,2752381	,4467406	0	1
gov3	2.100	,1057143	,3075448	0	1
state1	2.100	,6019048	,4896219	0	1
state2	2.100	,3738095	,4839292	0	1
state3	2.100	,0242857	,1539715	0	1

Source: Exported from Stata

Next, Table 4 focuses on the statistical description of the political connections variable.

In there,

Political: The variable that measures the leadership of a JSC has a political connection; has a value of 1 if gov_con is 1 and/or soe_con is 1, zero otherwise;

gov: This variable has a value of 1 if the CEO or chairman of the board of directors has worked for the government with or without a position and received the value 0 in other cases;

state: The variable representing the SOE relationship has a value of 1 if the CEO or chairman of the board of directors has worked and held a senior leadership position for the predecessor SOE of the current JSC or for the same SOE in the same industry, and is zero in all other case.

In more detail, the gov variable includes the following factors:

gov1: Never worked for the government and held no office;

gov2: Worked for the government but did not hold a position;

gov3: Worked for the government and held a position

Similarly, the state variable includes the following factors:

state1: Never worked and held a position at the predecessor SOE of the JSC at present;

state2: Used to work and hold positions at the predecessor SOE of JSC at present;

state3: Have worked and held positions at other SOEs before.

Looking at Table 4, it is easy to see that listed companies whose management has worked for the Government or SOEs account for a large proportion of the sample (63.66%). More specifically, in this sample, listed JSCs whose management has a relationship with the government is approximately equal to the proportion of listed JSCs whose senior management has worked as a leader in SOEs in the past are 38.24% and 39.95%, respectively. From the above statistical results, the author also find that although the listed JSCs have fairly large political connections, the relationship here is mostly from the fact that the senior management has worked with the government but has no position and used to work and hold a position at the SOE predecessor of the current JSC. This can be explained that in Vietnam, the majority of companies are preceded by equitized SOEs due to the characteristics of the Vietnamese economy before that.

4.2. Correlation matrix

Overall, as seen in Table 4, there is a strong relationship between the variables in the model. Based on this conclusion, it may be concluded that there is no connection between any two variables with a correlation coefficient larger than 0.8 and less than -0.3135. It is not anticipated that the model would exhibit multicollinearity in the first place.

Table 5. Correlation between variables in the model

Unit: Number

	Lev	Gov	State	Size	Sales_TA	ROA	EPS
Lev	1,0000						
Gov	0,0332	1,0000					
State	-0,1203	-0,0312	1,0000				
Size	0,3057	0,0928	-0,1926	1,0000			
Sales_TA	0,0324	-0,0440	0,1115	-0,1764	1,0000		
ROA	-0,3135	-0,0205	-0,0023	-0,0505	0,1487	1,0000	
EPS	-0,2609	-0,0348	0,0753	0,0275	0,1750	0,7221	1,0000

Source: Exported from Stata

The correlation between "Size" and "Lev" is 0,3057, indicating a high positive link between the two variables. Greater corporate scale is significantly associated with elevated leverage (high ratio of debt to total assets of enterprise I at time t). There are additional positive correlations between "Gov" and "Lev" (0,0332) and "Sales TA" and

"Lev" (0,0324), however, they are weaker than the correlation between "Size" and "Lev." The correlation between "State" and "Lev" is -0.1203, "ROA" and "Lev" is -0.3135, "EPS" and "Lev" is -0,2609. They all show a moderately negative correlation. The correlation between "ROA" and "Sales_TA", “EPS” and “Sales_TA”, “EPS” and “ROA” are all positive.

4.3. Regression results

Table 6 shows the findings of the study conducted to determine the impact of political connections on the capacity of firms listed on the HOSE to access capital markets, as well as the conclusions reached. The author uses three types of OLS regression models: the fixed-effects model (FEM), the robust fixed-effects model (FEM-robust), and the random-effects model (REM), with the results reported in four columns of Table 6. The regression findings revealed that political connections have a favorable influence on the financial leverage of firms or that it enhances the access of enterprises to external capital, respectively. After running the models and obtaining a p-value of less than 0.05 using the Hausman test, the author decides on the fixed effects model and the FEM-robust model for use in concluding. In this research, the regression coefficient of the Political variable in both two fixed-effects models in Table 6 has a positive sign (at 9,347). It is statistically significant at 1 percent and 5 percent, according to the results of the statistical tests. Although we use the fixed-effects model to make decisions, the random-effects model is also statistically significant at 1 percent at 6.278. This conclusion is similar to the findings of research by Li et al. (2008) and Claessens et al. (2008), which show the following: Enterprises' ability to access capital in the market is likely to improve as a result of their political connections (including their relationship with the government and their relationship with SOEs). This can be achieved by reducing the time it takes to access capital, overcoming legal obstacles, lowering barriers, and reducing information asymmetry.

Furthermore, the model demonstrates a positive association between the size of the firm and the capital structure of the enterprise. Firm size has a beneficial impact on the debt-to-asset ratio of a company when statistical significance is assumed to be one percent. This may be explained by the fact that the bigger the firms, the less likely they are to be confronted with information asymmetries, regulatory restrictions, or credit problems, allowing them to obtain money from outside the company more readily.

Table 6. Political relationships and access to capital markets

Unit: Number

	OLS	FEM	FEM-ROBUST	REM
POLITICAL	0.0207	9.347***	9.347**	6.278***
	(0.03)	(6.43)	(2.26)	(5.08)
SIZE	9.947***	8.472***	8.472***	8.844***
	(16.31)	(8.27)	(3.67)	(9.84)
SALES_TA	2.485***	-1.144**	-1.144	-0.157
	(7.28)	(-1.99)	(-0.67)	(-0.31)
ROA	-0.478***	-0.265***	-0.265**	-0.293***
	(-7.80)	(-4.80)	(-2.27)	(-5.48)
EPS	-0.00129***	-0.000176	-0.000176	-0.000274
	(-4.78)	(-0.77)	(-0.51)	(-1.23)
CONSTANT	-93.40***	-81.24***	-81.24***	-84.53***
	(-12.48)	(-6.47)	(-2.89)	(-7.64)
OBS	2104	2104	2104	2104

Source: Exported from Stata

t statistics in parentheses

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

Chapter 5: Conclusion

5.1. Conclusions

Political connections have been characterized in previous research around the globe as personal links between politicians and corporations formed via personal relationships or employment in Government (Li et al., 2008). However, the author has placed a greater emphasis on the peculiarities of Vietnam in this study: a nation in transition, with the majority of joint stock businesses listed on HOSE, descended from SOEs. Thus, in contrast to earlier research, this study quantified political connections through the connection with the government or with SOEs. Consistent with earlier research, this study discovered political connections that may assist firms in increasing their access to loans, particularly loans from commercial banks in which the state owns a majority of the stock. The research findings indicate that political connections have a beneficial effect on the capacity to get loans from state-owned commercial banks. In other words, firms with political connections may assist businesses in increasing their access to debt funding from government-owned financial institutions.

This result corroborates the findings of Li et al. (2008) and Claessens et al. (2008). The following explanation explains the beneficial effect of political connections on financial leverage: The political connections facilitate firms' access to incentives from state-owned commercial banks, therefore assisting enterprises in eliminating discrimination, overcoming regulatory hurdles, and reducing barriers and information asymmetries. Consequently, the cost of obtaining external financing will reduce, therefore increasing the company's access to financial markets.

Now, we have the answer to the question. Hypothesis H1 is true and they all have relationships. Political connections not only have an influence on the capacity to access the capital market but also do it in a positive way. Firms with political connections will gain benefits from the relationships.

5.2. Comparison with previous studies

This research discovers empirical evidence that supports prior conclusions from studies on political connections in China and developing nations, namely that firms' capacity to get bank loans would differ depending on their political connections. More precisely, the political connections may facilitate enterprises' access to the lending market, particularly loans from commercial banks whose capital is owned by the state.

5.3. Policy suggestions

The findings have significant policy implications. Specifically, the Government and SOCBs must continue to improve the legal system, ensure transparency, and ensure equal treatment for all businesses - regardless of political connections; all individuals have equivalent access to loans. Specifically, state banks must continue to enhance the regulatory framework and principles governing "enterprise governance" at commercial banks with significant budget capital to reduce agency costs between the state and the management board. By law, the representative, or management, must constantly make choices in the owners' best interests, which may be quantified financially or non-financially, such as lending money or implementing a program to generate employment, carrying out or assisting in the growth of a certain sector in accordance with the strategy. However, agency fees will be imposed if the agent sometimes acts in his or her own self-interest rather than the owners, as indicated above. In contrast to private firms and banks, the efficiency of management supervision in SOEs or commercial banks is mainly dependent on internal "self-monitoring." As a result, just changing the legal and regulatory framework may not be sufficient to enhance the quality of "corporate governance." It is critical to continue to enhance implementation methods, techniques, and monitoring measures. Only in this manner can we secure a fair and advantageous environment for Vietnamese businesses to receive loans and the long-term growth of the state-owned commercial banking system and the national economy as a whole.

5.4. Limitation

However, this research is not without limitations. The regression findings have a low degree of confidence when the model does not entirely account for the effect of other factors. Additionally, it is vital to examine the political connections' influence on the capacity to access capital markets, the amount of investment above or below the level of enterprises, and how the relationship affects company performance and value. The author expects that more studies will help to overcome these drawbacks.

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