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The Nexus between Corporate Performance and State Ownership in Vietnam: Evidence of State Ownership's Inverted U-Shape and Provincial Business Environment Influences

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Abstract: The level of state ownership in corporations is still a controversial topic because of its duality: on the one hand, it brings resource advantages, and on the other hand, it causes agency problems. Thus, our study aims to investigate the relationship between state ownership and corporate performance within the Vietnamese context, unraveling the impacts of state ownership's non-linear and provincial business environment. Analyzing financial data spanning over a decade from 359 listed corporations on the Vietnamese stock markets (2010–2021), our empirical findings derived through the General Method of Moments (GMM) reveal that state ownership emerges as a potent "strategic asset" with a positive influence on corporate performance. However, a critical point is identified when state ownership surpasses the threshold of 32 percent and a decline in corporate performance ensues—a confirmation of an inverted U-shaped impact. These results substantiate the necessity of the equitization process and underscore the imperative of judiciously managing state ownership in Vietnam. Notably, our study unveils a more critical dimension: the enhanced provincial business environment bolsters corporate performance and amplifies the positive impact of state ownership. Thus, a strategic dual approach is suggested to improve corporate performance: improving the business environment and recalibrating the percentage of state shareholders. Our study serves as empirical evidence, referencing Vietnam and other transitional economies, toward mannerly policy decision-making related to state ownership and the business environment to boost corporate performance.

Keywords: state ownership; business environment; corporate performance; generalized method of moments; Vietnam

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1. Introduction

Once again, the attention of researchers has turned towards corporate performance, a matter of great significance, especially within transitional economies that grapple with challenges like uncertainty in institutions, the repercussions of financial crises, and the persistent threat posed by the coronavirus pandemic (Alsamhi et al. 2022; Quyen et al. 2021; Tseng et al. 2019). Consequently, the emphasis on ensuring strong corporate performance has intensified, not just for the sake of bolstering overall organizational efficiency but also for safeguarding the interests of investors and fostering economic progress (Gao et al. 2023; Tseng et al. 2020). The primary focus revolves around comprehending the intricate roles assumed by corporate activities, the business environment, and state ownership due to their pivotal functions (Nguyen and Wong 2021). Given the context of emerging markets, these linkages hold particular significance, where governments often wield strategic resources such as information, regulatory frameworks, subsidies, tax policies, concessional loans, and financial support for market orientation (Nguyen et al. 2020; Vo 2018).

Vietnam's economic history is marked by a system where the government centrally planned the economy, with significant roles for state-owned enterprises. The unique historical backdrop positions Vietnam as an ideal case study for examining the role of state ownership. Despite a notable decline in state ownership following the 1986 reform's equitization, the enduring impact of state ownership has remained pronounced in recent times (Nguyen and Wong 2021; Nguyen and Vo 2022). Furthermore, Vietnam's market could be classified as developing, characterized by partial opacity and insufficient corporate governance, as Vo (2018) and Nguyen et al. (2021) highlighted. The context in Vietnam serves as an excellent setting to delve into the interplay between state affiliations, governance attributes, and corporate performance. Acknowledging the institutional landscape's complexity is imperative, which influences how affiliated enterprises establish connections and manage their performance.

Recent research has emphasized the growing importance of connections between businesses and governmental entities, as highlighted in the studies conducted by Nguyen and Wong (2021), Nguyen et al. (2020), and Ahmad et al. (2022). Debates surrounding the state's involvement in corporations have consistently revolved around the themes of efficiency and opportunities for investment, aiming to enhance competitiveness and refine business strategies (Nguyen et al. 2020; Ben Rejeb Attia et al. 2018) and its agency problems (Huang et al. 2017; Khatib et al. 2022). The existence of state ownership serves as a clear indication of the bond between businesses and the government, often leading to enhanced prospects for receiving governmental support, akin to a gesture of assistance (Chen et al. 2021; Song et al. 2016). Companies that maintain affiliations with the government enjoy facilitated access to valuable information, financial resources, government subsidies, concessional loans, investment agreements, and tax benefits. These factors invariably influence corporate valuation and overall performance. However, specific studies have shed light on the negative consequences associated with this relationship, suggesting that such connections do not always contribute positively to firm value and performance. Corporations under state ownership often grapple with significant challenges related to agency issues when pursuing objectives beyond mere profitability (Peng et al. 2016). Thus, the inconclusive findings across previous findings necessitate a fresh research perspective on the concentration of state ownership and its impact on performance.

On one side, it has been observed that small-holder representatives encounter limitations in exerting authority over corporate operations and strategic decisions in joint-stock companies, as highlighted by Nguyen et al. (2020) and Cao et al. (2022). Consequently, the consolidation of shares under state ownership expands their presence on corporate boards of directors and supervisory committees, granting them the power to shape operational strategies. Moreover, the concentration of state ownership bestows significant advantages upon enterprises, facilitating streamlined access to both internal and external resources and easing contract negotiations with government entities (Chase and Murtha 2019; Kumar and Zattoni 2015). Within this intricate interplay, the setbacks faced by the enterprise become intertwined with those of the state, creating a heightened motivation for the state to actively contribute to enhancing corporate performance. However, the concentration of ownership also carries inherent risks, notably exacerbating challenges related to agency problems as the state's ownership stake grows disproportionately large. Complexities such as the diversion of profits for alternative purposes, the potential lack of managerial expertise among appointed officials, and the possibility of a decline in the motivation to improve corporate performance among private shareholders arise as formidable obstacles to business expansion, particularly in environments characterized by weak institutional frameworks (Wehrheim et al. 2020; Gan et al. 2017; Song et al. 2016). Given contentious issues, the primary objective of our study is to thoroughly scrutinize the extent of state ownership concentration and its impact on corporate performance. Thus, the study aims to offer valuable insights and enhance our comprehension of the dynamics at play between the state and firms through empirical investigation.

On the other side, Tee (2018), in conjunction with Song et al. (2016) and Ben-Nasr et al. (2015), have put forth the proposition that the intricacies of the business environment significantly shape the correlation between ownership structure and corporate performance. According to this perspective, a favorable business environment fosters transparency, competition, protection of minority interests, and institutional accountability, irrespective of the ownership arrangement (North 1990; Pfeffer and Salancik 1978). However, when government affiliations are considered business assets, their influence can be misused, particularly within an inadequate institutional framework. Put simply, companies may extract these affiliations for non-transparent and non-competitive purposes, essentially treating these connections as a privileged pathway (Vo 2018; Pan et al. 2014; Yu 2013). As a result, it inevitably leads to imbalances in competition and distorts business operations as enterprises prioritize cultivating relationships with governmental bodies to avail themselves of preferential treatment. As highlighted by Wei (2007), the government assumes the dual roles of both a "player" and a "judge," contributing to ineffective and biased corporate governance and performance under these circumstances. Notably, Song et al. (2016) and prior research emphasize the disparities in treatment between state-owned enterprises and other companies concerning the protection of property rights, allocation of resources and information, and financial support. Consequently, reform endeavors should aim to foster an environment of equitable competition for both state-owned and non-state-owned enterprises, treating them with impartiality (Wei 2007). In this context, understanding the intricate relationship between the business environment and state ownership within the Vietnamese context stands as a crucial and relevant topic of inquiry.

Nonetheless, our current understanding of this intricate phenomenon, particularly in Vietnam, remains somewhat limited. Consequently, further research is crucial to deepen our scholarly comprehension and develop theories regarding the impact of state affiliations and governance attributes on corporate performance within Vietnam's distinct market. In spite of advancements made in refining this line of research, several noteworthy gaps still require filling as main contributions in our study. Firstly, despite concerted scholarly endeavors, the previous findings concerning the impact of state connections on corporate performance and value have yielded mixed results. Secondly, a distinct facet emerges where businesses form a formal, institutionalized connection with the government, facilitated through legal agencies and contractual agreements that provide secure access to resources (Song et al. 2016). This particular dimension has the potential to reshape our prior understanding of the implications of state ownership and its effects at the corporate level. Thirdly, the scope of previous studies has often been confined to the Chinese context, leaving unaddressed gaps in terms of empirical contributions within other countries. Fourth, the influence exerted by the local business environment has the potential to significantly impact enterprise performance, subsequently altering the dynamics between state ownership and businesses. In support of our empirical analysis, financial data covering over a decade from 359 listed corporations on the Vietnamese stock markets (2010–2021) and the General Method of Moments (GMM) are applied to achieve optimal results.

Beyond the introductory section, the subsequent structure of our study unfolds as follows: Section 2 delves into the literature review and the hypotheses underpinning the research, while Section 3 outlines the data, models, and methodologies employed. Empirical findings and discussions will be showcased in Section 4, and finally, Section 5 encapsulates the study's conclusions and implications and outlines the limitations inherent to this endeavor in Section 6.

2. Literature Review

On the one hand, Friedman (1962) advocates for the government's intervention to restrain monopolistic inclinations and prevent misconduct; it is crucial to acknowledge that the government actively participates in the economy through various means. In the early stages of market development, the government may establish wholly state-owned corporations, subsequently subject to partial or complete privatization (Uddin 2016). This strategic engagement of the government, whether as a major or minor stakeholder, empowers it to exert influence over the overall operations of the corporation. It is important to note that, as expressed by Uddin (2016), regardless of its level of ownership, the government remains the most politically influential shareholder, driven by an intense motivation to rigorously supervise managers primarily evaluated on socioeconomic objectives rather than purely focusing on maximizing shareholder wealth. This situation can lead to a dilemma where appointed managers prioritize socio-political objectives over the pursuit of maximizing shareholder wealth, creating a significant quandary. Moreover, in the absence of internal checks and competitive dynamics, managers might be inclined to prioritize their personal interests, as highlighted in the research by Liljeblom et al. (2019). This underscores the idea that privatization has the potential to offer illuminating perspectives. Indeed, investigations across diverse contexts, encompassing various nations, industries, and multiple countries, consistently reveal a trend where corporate performance witnesses improvement following the privatization process, implicating that state ownership in the past did not strongly promote enterprise performance (Khan et al. 2019; Chen et al. 2017).

On the other hand, the traditional resource-based theory has predominantly concentrated on market-derived resources and capabilities; an emerging body of literature has extended this perspective to encompass nonmarket-based political resources and capacities (Ahmad et al. 2022; Tu et al. 2021; Sharma et al. 2020). Lux et al. (2010) have proposed that political resources and capabilities increasingly influence corporate performance, especially within Western contexts. Hence, it is reasonable to contend that political resources and capacities exert an expanding and significant sway over corporate operations (Li et al. 2013). Indeed, in contrast to private and foreign enterprises, companies with affiliations with the state often forge robust connections with officials through their appointed executives (Tihanyi et al. 2019; Peng et al. 2016). These associations can bolster a firm's reputation, enhance its legitimacy, and amplify its bargaining prowess with the state and other stakeholders (Sun et al. 2021; Peng et al. 2016). In fiercely competitive markets, the possession of state ownership acquires distinct value and rarity, and it becomes notably intricate to replicate, particularly in influential sectors such as telecommunications, electricity, water, transportation, and construction (Liljeblom et al. 2019). These corporate entities can strategically leverage these relationships as invaluable resources to secure competitive advantages and cultivate superior strategies (Nguyen et al. 2020; Ben Rejeb Attia et al. 2018). Furthermore, as a shareholder, the government wields various mechanisms to support these interconnections between state and enterprise, a phenomenon commonly observed in specific countries like China (Goodell et al. 2021; Jin et al. 2022). They provide financial and political support by facilitating access to banking networks for loans. Enterprises with substantial state ownership levels often enjoy easier access to concessional loans and benefit from resource extraction facilitated by the state's influence as a major shareholder (Borisova et al. 2015; Yu 2013).

In the case of Vietnam, most research has attested to the main context of privatization by comparing firm performance before and after the privatization process (Nguyen and Vo 2022). However, investigations examining the impact of residual state ownership in partially privatized enterprises within the Vietnamese setting are scarce and yield varying outcomes (Nguyen et al. 2021; Vu and Pratoomsuwan 2019; Suu et al. 2021). Given the constrained and diverse findings, it is imperative to conduct additional research on the effects of residual state ownership on privatized enterprises, particularly within the specific context of Vietnam. We believe that the presence of state ownership within enterprises yields distinct advantages, yet it also introduces potential disadvantages, ultimately influencing revenue growth, cost efficiencies, and overall corporate effectiveness while concurrently introducing potential drawbacks. Hence, the first hypothesis is stated as follows:

H1. *State ownership has a positive impact on corporate performance.*

Looking at it from a different perspective, empirical studies conducted in China and various other countries worldwide have unveiled a non-linear correlation between high state ownership and metrics like firm value, risk-taking proclivity, and cash holdings (Nguyen and Wong 2021; Nguyen et al. 2020; Le et al. 2019; Kubo and Phan 2019). This is explained based on two opposite assumptions, as follows:

First, it is highly unlikely for owners to monitor the management teams and enforce their property rights within enterprises possessing modest levels of state ownership. As a result, this kind of corporate activity mirrors the diverse range of benefits catered to various shareholders (Tran et al. 2023; Uddin 2016). However, it is increasingly evident that the interplay between private and state entities is considerably more intricate than previously assumed. Due to the government's role as the most influential political stakeholder and the perceived value of state affiliations, representatives from the state wield considerable influence, effectively compelling regulators and private owners to make impactful decisions geared towards augmenting corporate value (Uddin 2016; Aljifri and Moustafa 2007). In this case, the state holds a potent arsenal of monitoring tools and political connections, including audits and inspectorates, that facilitate rigorous oversight and safeguard its investments (Ng et al. 2009). Evidence of a positive link between the percentage of state ownership and firm performance (Boubakri et al. 2018; Liao and Young 2012) supports that state ownership can correlate with improved corporate performance (Sharma et al. 2020).

Second, however, the agency theory offers insight into situations where the state assumes a major shareholder position. Under this setup, appointed representatives often dictate strategies and corporate proceedings, engendering what is referred to as the principal-principal agency problem. This interference is commonly perceived as detrimental to both corporate performance and minority shareholders (Khatib et al. 2022). It is due to the deliberate diversion of company resources for socioeconomic purposes through the exertion of control and voting rights by appointed managers (Shleifer and Vishny 1998; Boycko et al. 1996). Furthermore, these appointed managers may also succumb to opportunistic tendencies, focusing on their private gains from managing the corporation rather than maximizing profits. Such opportunistic behavior is fueled by the existence of an imperfect state surveillance system and officials' inadequate grasp of proficient management skills within a fiercely competitive market (Huang et al. 2017; Gan et al. 2017).

The above findings further bolster our hypothesis concerning the existence of an inverse U-shaped relationship between state ownership and corporate performance, as formulated in the subsequent hypothesis:

H2. *State ownership has an inverted U-shaped impact on corporate performance.*

In more recent times, the concept of institutional theory has risen to prominence as a framework to elucidate the disparities observed in research outcomes concerning firm performance across various markets. Fundamentally, this theory gives a mechanism for comprehending how firm behavior is influenced by specific social contexts (North 1990). In essence, individuals and organizations react to shifts within their environment, which encompass alterations to governmental laws and regulations, to navigate external pressures (Aguilera and Jackson 2010). Scholars such as Ho and Michaely (1988) and Cohen et al. (1983) have underscored the potency of a robust institutional framework in mitigating challenges stemming from information asymmetry, transactional expenses, and risks while concurrently elevating market efficiency, optimizing resource allocation, and safeguarding property rights. In addition, Kusnadi et al. (2015) and Kang and Kim (2012) posit that the absence of effective institutions and regulatory frameworks can pose significant hindrances to output, potentially fostering internal asset appropriation and nurturing corruptive behavior driven by the interests of corrupted officials.

Provincial business competition, implying institutional quality, reflects the enforcement of laws and regulations at the localized level, commonly recognized as the provincial business environment (Malesky et al. 2020; Thanh et al. 2020). Specifically, after the reforms in 1986, a noteworthy devolution of power transpired, transferring significant authority from the central government to local governments, empowering them to devise business strategies and attract investments tailored to the nuances of their respective regions. Esteemed researchers such as Tran et al. (2018) and Thanh et al. (2020) have cast a spotlight on the substantial divergence in governance quality evident across diverse Vietnamese regions. This divergence inherently reverberates in business operations, especially for enterprises operating within localized markets.

Within the dynamic interplay between corporations and local governance, state ownership assumes the role of a protective mechanism, safeguarding businesses from the detrimental consequences of corruption and local bureaucratic impediments (Darsono et al. 2022b). Noteworthy research conducted by Zhou (2017) and Nguyen and Van Dijk (2012) has illuminated how corporations boasting robust political affiliations gain heightened asset protection, exhibit reduced susceptibility to corruption, and remain shielded from undue interference by local government agencies, particularly within weak institutional landscapes. However, the insights proposed by Peng et al. (2016) posit that the significance of government ties may wane in a deregulated or liberalized environment. Thus, a plausible argument can be made that in regions characterized by lower-quality local governance, the influence of state ownership on corporate performance assumes a heightened role. Conversely, within regions characterized by higher-quality local governance, which inherently translates to heightened efficiency, the impact of state ownership becomes relatively less pivotal for firms.

H3. *The interaction of the provincial business environment with state ownership has a positive impact on corporate performance.*

Before showing the data, models, and empirical estimations, our paper illustrates the proposed hypotheses in Figure 1.

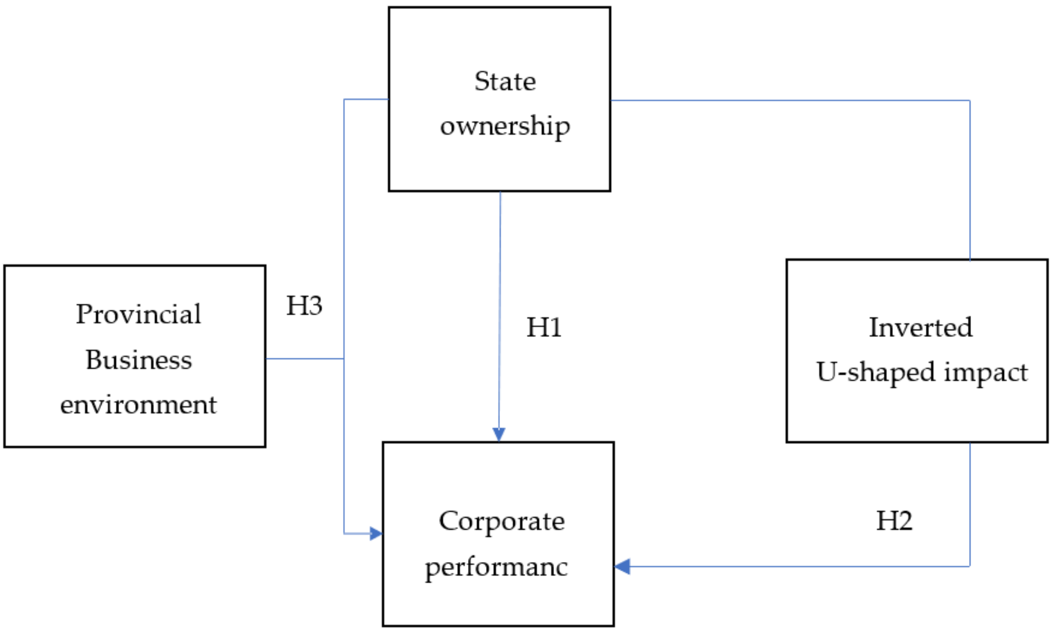

Figure 1. Analytical framework among state ownership, corporate performance, and the local business environment.

3. Data, Model, and Method

3.1. Data

Our study analyzes financial and ownership data from 365 listed corporations in Vietnam from 2010 to 2021, using 4308 observations. The data is gathered from financial statements and reports on the Ho Chi Minh Stock Exchange (HOSE) and Ha Noi Stock Exchange (HNX). In addition to the financial indicators described in Section 3.2, the Provincial Competitiveness Index (PCI) measures residents' and businesses' perceptions of the provincial institutional environment, assessing the quality of the provincial business environment (Malesky et al. 2020). It was developed, calculated, and annually published by the Vietnam Competitiveness Initiative and the Chamber of Commerce and Industry of Vietnam, scaling from 0 to 100. In our study, we use the final published results of the PCI index to measure the quality of the business environment, as the higher the index, the higher the quality of the business environment.

3.2. Model

To initiate the analysis, (i) the study analyzes firm performance and state ownership; (ii) it builds a model that investigates the non-linear influences of state ownership; and (iii) it develops a moderative model for the interaction of the business environment on corporate performance and state ownership. According to the extant literature, the following dynamic models are built to evaluate our hypothesis:

$$\text{CFP}_{it} = \alpha_0 + \alpha_1\text{CFP}_{it-1} + \alpha_2\text{SOE}_{it} + \sum_{k=1}^{5} \gamma_{1k}\text{Control variables}_{it} + \varepsilon_{it} \quad (1)$$

$$\text{CFP}_{it} = \beta_0 + \beta_1\text{CFP}_{it-1} + \beta_2\text{SOE}_{it} + \beta_3\text{SOE}^2 + \sum_{k=1}^{5} \gamma_{2k}\text{Control variables}_{it} + \varepsilon_{it} \quad (2)$$

$$\text{CFP}_{it} = \lambda_0 + \lambda_1\text{CFP}_{it-1} + \lambda_2\text{PCI}_{it} + \lambda_3\text{SOE} * \text{PCI}_{it} + \sum_{k=1}^{5} \gamma_{3k}\text{Control variables}_{it} + \varepsilon_{it} \quad (3)$$

Corporate financial performance (CFP) in a given year is typically measured using two major indicators: (a) Return on Assets (ROA) reflects the ratio of net income to the average of total assets, and (b) Return on Equity (ROE) shows the net income divided by the average of total equity. State ownership (SOE) is the percentage of shares owned by the national or local government, including those held by state organizations. Meanwhile, multiple state ownership percentages calculate the square of state ownership (SOE^2). The Provincial Competitiveness Index (PCI) in Vietnam has been used to assess public and corporate perceptions of the provincial business environment. An interaction variable (SOE$*$PCI) is constructed using the original variables to capture the interactive effects of state ownership and the local business environment.

The natural logarithm of total assets determines corporate size (SIZE); corporate age (AGE) is confirmed by the natural logarithm of the number of years since the initial public offering (IPO); tangibility asset (PPE) is the ratio of property, plant, and equipment to total assets at year-end; corporate leverage (LEV) is the ratio of total debt to total assets at year-end; and operating net cash flow (NCFOTA) is added into these models as control variables. The term ε_{it} shows the error term, ensuring that E (ε_{it}) equals 0 for all i firms and t times, signifying the random variation in the corporate performance model.

3.3. Estimating Method

Building upon the empirical discoveries of Ben Rejeb Attia et al. (2018), our study strategically employs the Generalized Methods of Moments (GMM) methodology to effectively contend with endogeneity, heteroscedasticity, and serial correlation that can potentially confound the analysis of corporate performance and state ownership. The GMM approach, surpassing the Ordinary Least Squares (OLS) estimation, stands out among lagged instruments and avoids biased results due to endogenous problems. The validity of the application of a two-step system in GMM estimation is confirmed through a Hansen test and the Arellano-Bond test. Hansen's test is to determine whether there are over-identifying restrictions in our statistical models. Concurrently, the Arellano-Bond test probes whether the prospect of autocorrelation in idiosyncratic error terms exists. These methodological steps draw upon the recommendation of Blundell et al. (2001).

4. Findings and Discussions

4.1. Empirical Findings

Table 1 provides a comprehensive summary of variable statistics from 2010 to 2020. The statistics encompass the mean, standard deviation, minimum, median, and maximum values. The mean values for ROA and ROE are 0.060 and 0.111, respectively, expressed as percentages. The standard deviations are 0.074 for ROA and 0.158 for ROE. The maximum value of ROA is 0.784 (Kinh Do Joint Stock Company in 2015), and its minimum value is −0.646 (Long A Food Processing Export Joint Stock Company in 2012). Similarly, ROE's minimum and maximum values are −3.674 (Camimex Group Joint Stock Company in 2013) and 0.982 (Kinh Do Joint Stock Company in 2015), respectively. The average value of SOE is 0.235, and the standard deviation is 0.241, showing that state ownership percentage fluctuated significantly during the research period. The average index of PCI is 0.623, and its standard deviation is 0.040, illustrating less volatility. Other statistics are shown in Table 1.

Table 1. Descriptive statistics.

Variable	Observations	Mean	Std. Dev.	Min	Max
ROA	4308	0.060	0.074	−0.646	0.784
ROE	4308	0.111	0.158	−3.674	0.982
SOE	4308	0.235	0.241	0.000	0.844
PCI	4308	0.623	0.041	0.493	0.751
SIZE	4308	27.294	1.584	23.330	33.691
AGE	4308	8.759	3.838	1.000	17.000
PPE	4308	0.189	0.191	0.000	0.962
LEV	4308	0.245	0.208	0.000	1.476
NCFOTA	4308	0.056	0.134	−0.696	1.903

Source: HOSE and HNX.

In Tables 2–4, the AR(1) and AR(2) tests satisfy the requirements of the GMM-two steps; meanwhile, the Hansen test also shows that they are robust estimations with suitable instrumental variables. Table 2 displays that the outcomes related to the impact of SOE are clearly positive for both ROA and ROE, maintaining significance at the 1% level. They imply that state ownership exerts a favorable influence on corporate performance. To be specific, the regression coefficients for SOE are calculated as 0.010 (ROA) and 0.047 (ROE). Our results support Hypothesis H1, according to which state ownership participation positively affects corporate performance. It shows that state ownership is a strategic asset and that firms can benefit from this relationship. Our findings indicate that government-related shareholders can improve corporate performance by effectively monitoring and managing risk-taking in listed companies (Nguyen et al. 2020; Ben Rejeb Attia et al. 2018; Vo 2018).

Next, model (2) is estimated with the participation of SOE and SOE^2. The results in Table 3 show that the regression coefficients of SOE are 0.072 (for ROA) and 0.408 (for ROE), while the regression coefficients of SOE^2 are −0.110 (for ROA) and −0.632 (for ROE), at the 1% significance level for both estimates, respectively. Our interesting result suggests that there exists a maximum value of SOE where over-owning will have a negative effect on CFP, supporting Hypothesis H2. By derivative concerning SOE, it is $\text{SOE}' = \beta_2 + 2\beta_3\text{SOE}$. Our study sets $0 = \beta_2 + 2\beta_3\text{SOE}$, and the equation is solved to find the SOE. As a result, the SOE receives 32.72 (for ROA) and 32.27 (for ROE), respectively. These findings approximate the SOE values found in the previous study by Nguyen and Wong (2021) for corporations' cash holdings.

Table 2. State ownership and corporate financial performance.

CFP	CFP (ROA)	CFP (ROE)
Lag of CFP	0.337 ***	0.085 ***
	(70.70)	(52.51)
SOE	0.010 ***	0.047 ***
	(3.03)	(8.18)
SIZE	0.008 ***	0.030 ***
	(10.72)	(24.41)
AGE	−0.001 ***	−0.002 ***
	(−5.59)	(−11.66)
PPE	0.015 **	0.079 ***
	(2.00)	(9.47)
LEV	−0.025 ***	−0.086 ***
	(−8.21)	(−18.47)
NCFOTA	0.038 ***	0.147 ***
	(17.94)	(25.47)
Const.	−0.181 ***	−0.713 ***
	(−8.73)	(−21.43)
Group	359	359
Obs	3949	3949
Number of IVs	252	281
Hansen test (*p*-value)	0.250	0.179
AR (1) (*p*-value)	0.000	0.019
AR (2) (*p*-value)	0.195	0.856

Two-step GMM, ( ) is z-statistic. ** and *** are significances at 5%, respectively and 1%.

Table 3. Non-linear effects between state ownership and corporate financial performance.

CFP	CFP (ROA)	CFP (ROE)
Lag of CFP	0.335 ***	0.077 ***
	(70.86)	(44.97)
SOE	0.072 ***	0.408 ***
	(4.72)	(13.63)
SOE^2	−0.110 ***	−0.632 ***
	(−4.00)	(−12.50)
SIZE	0.009 ***	0.034 ***
	(12.21)	(25.86)
AGE	−0.001 ***	−0.002 ***
	(−4.02)	(−7.60)
PPE	0.138 *	0.075 ***
	(1.83)	(8.36)
LEV	−0.028 ***	−0.099 ***
	(−9.01)	(−19.58)
NCFOTA	0.037 ***	0.111 ***
	(16.79)	(18.90)
Const.	−0.206 ***	−0.846 ***
	(−10.24)	(−22.87)
Group	359	359
Obs	3949	3949
Number of IVs	252	281
Hansen test (*p*-value)	0.277	0.163
AR (1) (*p*-value)	0.000	0.021
AR (2) (*p*-value)	0.200	0.895
Threshold	32.72	32.27

Two-step GMM, ( ) is z-statistic. * and *** are significances at 10% and 1%, respectively.

Table 4. State ownership and corporate financial performance.

CFP	CFP (ROA)	CFP (ROE)
Lag of CFP	0.349 ***	0.083 ***
	(221.80)	(78.79)
PCI	0.021 ***	0.245 ***
	(4.54)	(16.66)
SOE∗PCI	0.020 ***	0.071 ***
	(10.35)	(13.45)
SIZE	0.001 ***	0.031 ***
	(28.81)	(40.73)
AGE	−0.001 ***	−0.004
	(−10.09)	(−25.97)
PPE	0.004 *	0.072
	(1.83)	(14.27)
LEV	−0.029 ***	−0.098 ***
	(−27.65)	(−35.85)
NCFOTA	0.045 ***	0.158 ***
	(44.05)	(41.58)
Const.	−0.186 ***	−0.870 ***
	(−23.93)	(−40.19)
Group	359	359
Obs	3949	3949
Number of IVs	336	326
Hansen test	0.385	0.241
AR (1)	0.000	0.020
AR (2)	0.183	0.858

Two-step GMM, ( ) is z-statistic. * and *** are significances at 10% and 1%, respectively.

Table 4 outlines the empirical outcomes of the nexus among the business environment, state ownership, and corporate performance. The computed coefficients for the Provincial Competitiveness Index (PCI), acting as a gauge of institutional environment robustness, stand at 0.021 (ROA) and 0.245 (ROE), respectively. Remarkably, these coefficients attain statistical significance at the 1% level. Hence, the implications derived from Table 4 propose that a favorable institutional milieu serves to curtail disparities in risks and informal expenditures. Additionally, it accentuates the role of the institutional framework in augmenting market efficiency and resource allocation. In essence, the provincial institutional setting significantly shapes corporate performance.

Previous investigations have often treated state ownership, political engagement, and market forces as distinct entities (Green and Liu 2005). Nevertheless, the empirical findings showcased in Table 4 corroborate a tight interconnection among the institutional landscape, state ownership, and corporate performance. The interactive coefficients (SOE∗PCI) emerge as statistically substantial at the 1% level, conveying affirmative impacts on both ROA (0.020) and ROE (0.071). Our outcomes support Hypothesis H3, positing that with an enhancement in the institutional framework, the influence of state ownership on corporate performance gains potency. To conclude, our findings illuminate the pivotal role of the institutional backdrop in mediating the correlation between state ownership and corporate performance. While state ownership contributes to corporate performance, sustained enhancements in the institutional framework hold the potential to amplify these effects further.

Furthermore, the control variables across all estimation models yield consistent outcomes at the 1% significance threshold. The above findings indicate a level of robustness in the estimates and validate the notion that alterations in the financial attributes of a firm elicit responses in its performance. Notably, SIZE demonstrates a positive impact on both ROA and ROE. Evidently, larger company sizes foster more advantageous conditions for enhancing efficiency by employing their total assets in investment and production endeavors. Similarly, the presence of tangible assets (PPE) and the influx of cash from operating activities (NCFOTA) manifest statistically significant and positive influences on corporate performance. Should these attributes be enhanced, they could significantly bolster operational efficiency, making them focal points in operational management. However, variables such as IPO duration (AGE) and debt ratio (LEV) exert adverse effects on a company's performance. This observation lends support to the prevailing argument that profitable firms often opt for lower debt levels, likely owing to the expenses linked with securing external capital. Likewise, aging companies are prone to diminished profits due to the effects of age-related effects such as obsolescence, adaptability, and resistance. These outcomes align with prior investigations conducted by Minh Ha et al. (2021) and Merendino and Melville (2019).

4.2. Discussions

Our research broadens comprehension by investigating how state ownership, institutional environment, and board characteristics influence corporate performance. This exploration is crucial due to the ambiguity surrounding the necessity and benefits of state ownership for corporations and the extent to which the business environment can enhance their performance. Vietnam has been proposed as a fitting case study for examining the effects of state ownership, given its status as an emerging transitional nation and its historical background of a centrally planned economy dominated by state-owned enterprises.

Empirical evidence highlights the positive influence of state ownership on firm performance, resonating with analogous findings in China and Vietnam (Suu et al. 2021; Lazzarini and Musacchio 2018). Government engagement as a stakeholder has significantly transformed corporate performance by furnishing non-market political resources and competencies. Enterprises with state involvement enjoy heightened property rights protection and resource allocation, distinguishing them from their counterparts. In Vietnam's economic landscape, state ownership assumes the character of a valuable asset, contributing to enhanced corporate performance, in line with precedent studies by Suu et al. (2021) and Nguyen et al. (2020).

However, our study shows that high state ownership is not always a powerful tool. Empirical findings show the optimal state threshold at approximately 32.00 percent, which suggests that over-ownership can cause problems for firm performance. Our findings support agency theory, which presents a conflict between state shareholders and other minority shareholders (Khatib et al. 2022). Furthermore, since short-term social and political goals are also the top priorities of state-owned enterprises, these goals may conflict with maximizing the profits of minority shareholders (Abramov et al. 2017). The previous evidence supports the inverted U-shaped results of studies by Nguyen and Wong (2021), Le et al. (2019), and Kubo and Phan (2019).

In addition, our study further accentuates the influence of the institutional milieu on local governance quality, specifically exemplified through the Provincial Competitiveness Index. Historical antecedents from the southern and northern regions have imprinted divergent characteristics on local governance and extensive decentralization from central to local levels. Broad factors strongly impact business operations through legal enforcement and customary local governance. Elevating local governance quality correlates with improved corporate performance, consistent with institutional theory.

Nevertheless, in comparison to previous studies such as those by Iwasaki et al. (2022), Chan et al. (2016), Kim et al. (2013), and Gill et al. (2011), which indicate an inefficient link between state ownership and firm activities in developed economies like Korea, New Zealand, the United States, and Europe, our study robustly supports the positive connection between state ownership and the business environment. Here, state-owned enterprises can serve as strategic liaisons, fostering ties with local governments and receiving essential support for business operations.

Thus, the research demonstrates state ownership's significant and positive role in business performance. Nonetheless, pinpointing the threshold of state ownership in its relationship with enterprise performance remains crucial. Our research's findings suggest that state ownership plays a pivotal role in the performance of listed companies, aligning perfectly with Vietnam's characteristics, where state ownership is deemed a "strategic asset." State ownership presence fosters robust support for constructing a legal framework, safeguarding rights, and preventing misconduct through its own role. However, the repercussions of ownership concentration result in adverse effects associated with an excessively high state ownership percentage, leading to conflicts with other shareholders regarding the company's strategic direction, whether geared towards profit or socio-political goals. Major state shareholders can wield control, compelling corporations to engage in activities that benefit them at the expense of minority shareholders. In our sample, the average state ownership is about 23.5%; meanwhile, the found threshold ratio is 32%. In this case, the higher 32.00 percent state ownership ratio can significantly influence corporate decisions. Consequently, resources may be extracted by individuals or other affiliated parties, particularly within contexts characterized by weak institutions (Gan et al. 2017; Wehrheim et al. 2020). This is substantiated by the subsequent revelation that enterprise performance witnessed an upswing alongside the enhancement of the institutional environment. Our investigation underscores the linkage between advancements in local governance quality and the simultaneous improvement in corporate performance. Our findings are entirely consistent with institutional theory, emphasizing that the amelioration of the business environment contributes to better asset protection, diminished information asymmetry, and reduced risks, corruption, and costs for businesses (Nguyen and Vo 2022; Nguyen and Wong 2021; Nguyen et al. 2020, 2021).

5. Conclusions

In recent times, corporations have encountered escalating risks and dropping performance due to crises and uncertainties (Darsono et al. 2022a). Over the years, the Vietnamese government has been actively propelling corporate structure and institutional reforms since the 1980s, aiming to enhance effectiveness and efficiency. Nevertheless, challenges persist as local governance and corporate practices continue to evolve, profoundly affecting corporate performance.

Our study delves into the ramifications of state ownership and the institutional framework on corporate performance in Vietnam, an emerging nation transitioning from a centrally planned economy. The investigation underscores the pivotal role of state ownership as a "strategy asset" tool for government intervention. Our quantitative analysis reveals that state ownership, institutional environment, and corporate characteristics share intricate relationships with corporate performance, albeit with distinct effects. Our findings unveil their roles within a country characterized by the state's central role.

The research also scrutinizes the interplay between state ownership and the local business environment concerning the performance of listed companies in Vietnam from 2010 to 2020. Employing a two-step systematic GMM approach, our study elucidates the positive role of state ownership in corporate performance. However, state ownership is not a powerful tool because our findings show that the optimal state threshold of approximately 32.00 percent suggests that over-ownership can cause problems for firm performance. Additionally, it uncovers that an augmented local business environment correlates with enhanced corporate performance. An upgraded institutional context accentuates state ownership's positive impacts while mitigating corporate attributes' negative influences. Our study illuminates the pivotal function of state ownership within listed company operations, encompassing financial performance and governance mechanisms. The study's findings contribute to a deeper comprehension of state ownership's manifestations in corporate governance and financial performance within Vietnam's distinctive landscape. Furthermore, our study accentuates the significance of the business environment in the context of state ownership and corporate performance, thus supplying valuable insights into financial theories.

Consequently, our research has a number of practical implications. Policymakers and regulators could contemplate elevating local institutions' caliber, gradually lessening state shareholders' predominant role, and carving out well-defined roles for corporate characteristics to invigorate corporate performance. The study also underscores the active involvement of corporate state representatives in supervising and endorsing board decisions.

6. Limitations

However, the study exhibits limitations, such as the omission of factors like risk, ownership structure, and gender diversity that can influence firm performance. Moreover, it relies on a confined sample size and a singular business environment indicator. Subsequent studies should delve into these factors, broaden the sample size for more representative findings, and strengthen the evidence regarding the business environment's impact on corporate operations. In addition, social responsibility, state ownership, and sustainable performance should also be considered, referring to Hou (2019) and Hai Yen et al. (2023).

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