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Political Connections and Bank Profitability: Evidence from Vietnamese Commercial Banks

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ABSTRACT. This study examines the impact of political connections, measured through state ownership and CEO political affiliation, on the profitability of Vietnamese Joint-Stock Commercial Banks from 2013 to 2023. The study employs OLS, FEM, REM, FGLS, and GMM models to address potential issues of endogeneity and heteroskedasticity. The results reveal that both SO and PC exert negative and statistically significant effects on bank profitability. In contrast, bank size and GDP growth have a positive influence on profitability, whereas non-performing loans and high liquidity ratios have a negative impact. This study presents novel empirical evidence of the effects of political connections on bank performance in Vietnam. It also offers policy insights suggesting that the State should reduce its ownership role, strengthen regulatory capacity, accelerate privatization, and promote independent and professional bank governance.

1. Introduction

In the financial market, banks are subjected to strict regulation by governmental authorities; therefore, they often maintain close connections with the political system [1] . Consequently, political factors have been attracting scholarly attention in banking-related research. Moreover, given the fact that banks are distinctive financial institutions playing a pivotal role in the allocation of capital within the economy, the link between corporate governance and the political system becomes even more apparent. According to Hawley and Williams [2], the political model of corporate governance demonstrates that the participation or influence of political actors in a firm's ownership structure and management can significantly alter its strategic decisions and

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financial performance. This observation is particularly relevant to the banking sector, where political connections may facilitate access to preferential credit policies and interest rate support. Mallin [3] emphasizes that applying political theories to corporate governance enables researchers to better analyze how political factors shape ownership structure, control rights, and decision-making processes within organizations. In the banking industry, where state ownership remains dominant in many developing countries, the political affiliations of board chairpersons or CEOs can serve as a crucial determinant of financial strategy and firm performance.

In the context of increasing pressure on bank profitability, previous studies have reported mixed findings regarding the impact of political connections on financial performance. Fallatah [4] argue that corporate governance structures have no significant effect on return on assets, whereas Lehuede et al. [5] emphasize that the lack of transparency and conflicts of interest continue to hinder the operational efficiency of many banks. Regarding political connections, Faccio et al. [6] indicates that in economies with weak institutional frameworks, firms often rely on their relationships with government agencies to gain access to resources; however, such ties may simultaneously foster corruption and abuse of power. Lin et al. [7] warn that prolonged financial privileges can encourage overinvestment, thereby exerting a negative effect on profitability. In addition, Lin et al. [8] find that political affiliations of CEOs may lead to higher non-performing loan ratios and reduced banking efficiency. These conflicting findings highlight the need for an in-depth investigation in the Vietnamese context to clarify the actual influence of political connections on the profitability of Joint-Stock Commercial Banks (JSCBs).

In Vietnam, studies examining the relationship between corporate governance and political connections in the banking sector remain limited, leaving a research gap that warrants further exploration. This study aims to assess the impact of political connections on the profitability of JSCBs. Based on the findings, the research proposes managerial implications to effectively manage political relationships, thereby enhancing performance and promoting sustainable development among Vietnamese banks.

2. Literature review

Faccio et al.[6] and Muazaroh et al. [9] suggest that banks with political connections may gain preferential access to resources and lower-cost funding. The greater the extent of these connections, the better the banks' operational performance tends to be. Such advantages can enhance their competitiveness and efficiency compared with politically unconnected banks. Hung et al. [10] argue that politically connected firms may face less pressure to comply with or be monitored under regulatory requirements. Similarly, Sun and Zou [11] find that CEO political connections have a significant impact on firm profitability; when external shocks affect the CEOs' political ties, firms' profitability also fluctuates accordingly. In addition, Awasthi et al. [12] report

that firms whose boards are connected to state-owned enterprises exhibit higher accounting performance and stock returns during crisis periods. Besides, in countries with weaker institutional development, companies tend to benefit more when their boards have political connections. Overall, these studies provide evidence of a positive relationship between political connections and economic outcomes, as such ties often create greater opportunities for firms to expand and sustain their business operations.

Conversely, Chen et al. [8] report that bank profitability is negatively affected when directors have political connections on the board, and that banks with political ties tend to exhibit the weakest performance [13]. Managers and board members with political affiliations may display more opportunistic behavior or demand compensation for potential benefits, thereby increasing corporate costs and exerting a negative impact on both accounting and market performance [14]. Moreover, politically connected banks have been shown to have higher non-performing loan (NPL) ratios compared with their unconnected counterparts [15]. Overall, while political connections and board characteristics can influence bank profitability, they often affect risk-taking behavior, operational efficiency, and managerial environment. These factors may generate either positive or negative impacts on bank profitability, depending on specific contexts and circumstances.

One of the major challenges faced by state-owned banks is political interference. Government ownership of banks may lead to lending decisions influenced by political considerations rather than purely economic criteria, potentially distorting capital allocation and affecting bank profitability. According to Eissa and Eliwa [16] , political connections through government ownership have a positive impact on both firm profitability and market value. Similarly, Alshammari [17] finds that state ownership in commercial banks can positively influence profitability, though the effect varies across regions. However, Huan and Doan [18] as well as La Porta et al. [19] argue that politicians often use state-owned banks to pursue their own political objectives, thereby reducing operational efficiency. State-owned banks tend to be less profitable than private banks, especially in developing countries. This is because they often focus more on social goals rather than profit maximization, resulting in lower profitability but greater social benefits [19] [20]. Additionally, these banks tend to exhibit higher NPL ratios [20]. Overall, while state ownership may lead to lower bank profitability, it continues to serve vital social and economic functions, which underscores the significant role of the government in the banking sector.

Hypotheses

According to Eissa and Eliwa [16] , government ownership of firms has a positive effect on both profitability and market value. Similarly, Alshammari [17] finds that state ownership in commercial banks can positively influence bank profitability, although this effect varies across

regions. In contrast, Kirimi et al. [21] argue that state ownership leads to poor operational performance, thereby negatively affecting long-term growth. Cornett et al. [22] also report that state-owned banks operate with lower profitability and higher credit risk compared to private banks, to which studies further suggest that government ownership adversely affects the financial performance of banks ([23], [24]).

H1: State ownership has a negative impact on bank profitability.

According to Li et al. [25] , when chairpersons or CEOs have political connections, they may make decisions that do not maximize shareholder value, ultimately harming firm performance. Conversely, politically connected firms are more likely to receive support during financial distress [6], thereby enhancing firm value and improving market access [26]. Kim et al. [27] suggest that firms tend to appoint directors with political ties as a means of contributing to lobbying campaigns. Lin et al. [7] argue that executives with prior political experience may leverage their personal networks and relationships with government officials to obtain preferential treatment for their firms. Large bank managers may also invest more resources in cultivating relationships with political officials to mitigate environmental uncertainty [28]. Additionally, CEOs who have previously engaged in political activities may help reduce risk exposure and enhance operational efficiency.

H2: CEO political connections have a positive impact on bank profitability.

3. Methodology

This study employs a panel data multiple regression model to examine the relationship between political connections and bank profitability:

$$BP_{i,t} = \beta_0 + \beta 1^{*} SO_{i,t} + \beta 2^{*} PC_{i,t} + \sum \beta_q control_{i,t} + \mu_{i,t} \quad (1)$$

Where:

- $BP_{i,t}$ represents the profitability of bank i at time t, measured by three indicators: Net Interest Margin (NIM), Return on Assets (ROA), and Return on Equity (ROE).
- $SO_{i,t}$ denotes the state ownership ratio of bank i at time t.
- $PC_{i,t}$ is a dummy variable indicating whether the CEO of bank i at time t has political connections.

The model also incorporates several control variables, including: Bank size / total assets, Debt-to-equity ratio, Loan-to-deposit ratio, Liquidity, NPLs, GDP growth, and Inflation rate.

Table 3.1

Variable Description

Definition	Coded name	Measurement	Reference
		Bank Profitability Variables	
Return on Assets	ROA	Profitability measured as net income divided by total assets.	[29], [14]
Return on Equity	ROE	Profitability measured as net income divided by shareholders' equity.	[8], [30]
Net Interest Margin	NIM	Measured as net interest income divided by average earning assets.	[31] , [8]
		Political Connection Variables	
State Ownership	SO	Percentage of state ownership measured as the proportion of state-held equity to total shareholders' equity.	[22]
Political Connection	PC	Dummy variable equal to 1 if the board of directors or the CEO is a current or former official of central/local government or the military, and 0 otherwise.	[32]
		Control Variables	
Bank Size	SIZE	Natural logarithm of total assets.	[33]
Debt-to-Equity Ratio	D/E	Ratio of total debt to total shareholders' equity.	[8]
Loan-to-Deposit Ratio	LDR	Ratio of average total loans to average total deposits.	[8]
Liquidity Ratio	LIQ	Ratio of current (short-term) assets to total assets.	[8]
NPLs	NPL	Ratio of non-performing loans (loans overdue by more than 90 days) to total loans.	[34]
GDP growth	GDPG	Annual percentage change in Gross Domestic Product (GDP).	[35]
Inflation	INF	Annual inflation rate.	[36]

Source from the authors

Data Collection, Analysis, and Research Methodology

The study covers the period 2013 - 2023 to analyze the profitability of Vietnamese JSCBs. The year 2013 is selected as the starting point because it marks the beginning of the economic recovery following the "bottom-out" phase caused by the global financial crisis (2008 - 2009) and the European sovereign debt crisis (2011 - 2012). At the same time, 2013 was also the year when Vietnam launched a series of banking sector restructuring policies, notably Decision No. 254/QĐ-TTg on restructuring the financial and credit system and Decision No. 843/QĐ-TTg on the establishment of the Vietnam Asset Management Company (VAMC) to handle non-performing loans. The period 2013 - 2023 is thus considered the post-crisis era, during which governance reforms and risk-control mechanisms began to take effect. This 11-year span provides a sufficiently long timeframe to observe changing trends and assess the cumulative impact of corporate governance and political connections, particularly in the context of major macroeconomic shocks such as the COVID-19 pandemic (2020 - 2022). Overall, this research window captures three critical phases: recovery - stabilization - response to volatility, which form a comprehensive basis for evaluating the determinants of bank profitability among Vietnamese JSCBs.

The initial regression model was estimated using the OLS method to provide a preliminary understanding of the relationships among variables. Subsequently, to exploit the panel data characteristics, both Fixed Effects (FE) and Random Effects (RE) models were employed. The F-test and Breusch-Pagan Lagrange Multiplier (LM) test were conducted to assess the presence of individual or random effects. In contrast, the Hausman test was applied to determine the appropriate model specification. When violations of classical assumptions, such as heteroskedasticity or autocorrelation, were detected, the GLS estimator was used to improve the reliability and efficiency of the coefficient estimates. Finally, the GMM was implemented with appropriate instrumental variables to ensure consistency and eliminate potential endogeneity bias. Based on the estimation results, the study conducted further diagnostic tests, including a Variance Inflation Factor (VIF) analysis to detect multicollinearity, correlation analysis among explanatory variables, and model specification tests to confirm the robustness and suitability of the GMM model.

The final results are analyzed in detail to clarify the direct effects of state ownership and political connections on bank profitability indicators. Based on the empirical findings, the study proposes managerial implications aimed at optimizing corporate governance structures and effectively managing the intersection between political ties and business operations, thereby enhancing sustainable performance among Vietnamese JSCBs.

4. Findings and discussion

Table 4.1 presents the descriptive statistics for all variables used in the empirical analysis, based on 240 bank-year observations from Vietnamese commercial banks over the period 2013-2023.

Table 4.1

Descriptive statistics

Variable	N	Mean	Standard Deviation	Min	Max
Bank Profitability Variables					
ROE	240	0.11806	0.09241	-0.841658	0.26388
ROA	240	0.01064	0.01028	-0.043276	0.11305
NIM	240	0.0374	0.01602	-0.019698	0.11017
Political Connection Variables					
SO	240	0.13252	0.2692	0	0.9576
PC	240	0.3625	0.48173	0	1
Control Variables					
SIZE	240	33.1515	1.00849	30.96577	35.5543
NPL	240	0.02141	0.02572	0.004667	0.2976
D/E	240	12.1266	3.94532	1.165448	23.6198
LDR	240	6.0659	7.09091	0.62519	76.3634
LIQ	240	0.7654	0.09853	0.410774	0.93466
GDPG	240	0.06092	0.01709	0.0255	0.08124
INF	240	0.03243	0.01344	0.0063	0.0659

Table 4.2 presents the Pearson correlation matrix among the main independent variables and control variables. The results indicate that there is no serious multicollinearity problem, as all correlation coefficients are below the conventional threshold of 0.8. Specifically, state ownership shows a moderate positive correlation with bank size (0.6618), liquidity (0.3606), and leverage (0.3573), reflecting the characteristic that state-owned banks are generally larger and more stable. Meanwhile, political connections exhibit only a weak correlation with state ownership (0.2053) and bank size (0.0677), suggesting that political ties represent a distinct channel of influence, with limited overlap with credit risk or lending behavior.

Table 4.2

Correlations

	ROE	ROA	NIM	PC	SO	NPL	SIZE	DE	LDR	LIQ	GDPG	INF
ROE	1											
ROA	0.8329	1										
NIM	0.4972	0.6407	1									
PC	-0.008	-0.031	0.205	1								
SO	0.2008	-0.025	-0.165	0.2053	1							
NPL	-0.328	-0.21	-0.087	-0.078	-0.163	1						
SIZE	0.5534	0.4019	0.1394	0.0677	0.6618	-0.181	1					
DE	-0.133	-0.539	-0.47	-0.049	0.3573	0.0043	0.106	1				
LDR	-0.089	-0.123	0.013	0.2011	-0.055	-0.01	-0.024	0.1254	1			
LIQ	0.4481	0.2995	-0.156	0.0028	0.3606	-0.186	0.5591	0.1067	-0.049	1		
GDP G	-0.073	-0.084	-0.038	0.019	0.0147	0.0603	-0.071	0.0448	0.0099	-0.048	1	
INF	-0.1	-0.063	-0.064	0.0219	-0.048	0.1248	-0.132	-0.095	-0.07	-0.108	0.042	1

The table below summarizes the regression results obtained from Ordinary Least Squares (OLS), Fixed Effects Model (FEM), Random Effects Model (REM), and Feasible Generalized Least Squares (FGLS) estimations, with ROE, ROA, and NIM serving as the dependent variables, respectively.

Table 4.3: *Summary of Regression Results across Estimation Methods*

Var	**OLS**			**FEM**			**REM**			**FGLS**		
	ROE	ROA	NIM	ROE	ROA	NIM	ROE	ROA	NIM	ROE	ROA	NIM
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
PC	-0.0010	-0.0010	0.007***	-0.007	-0.001	0.001	-0.008	-0.001	0.002	-0.002	0.002	0.003*
	(-0.13)	(-0.88)	-4.021	(-0.70)	(-0.63)	-0.58	(-0.84)	(-1.04)	-0.96	(-0.33)	(-0.82)	-1.9
SO	-0.064***	-0.007***	-0.020***	-0.038	-0.001	-0.012	-0.063**	-0.007**	-0.012*	-0.017	-0.003	-0.007*
	(-3.38)	(-3.78)	(-4.39)	(-0.97)	(-0.33)	(-1.33)	(-2.32)	(-2.16)	(-1.81)	(-0.91)	(-1.43)	(-1.87)
SIZE	0.041***	0.005***	0.008***	0.033***	0.004***	0.004	0.038***	0.003***	0.003**	0.033***	0.003***	0.004***
	-7.79	-7.86	-6.90	-5.4	-5.39	-1.45	-6.16	-5.93	-2.25	-5.6	-4.95	-2.75
NPL	-0.753***	-0.043***	-0.058	-0.577***	-0.054***	-0.135***	-0.585***	-0.051***	-0.128**	-0.364***	-0.044***	-0.104***
	(-4.56)	(-2.91)	(-1.45)	(-3.88)	(-3.81)	(-4.51)	(-3.98)	(-3.63)	(-4.37)	(-2.94)	(-3.39)	(-4.57)
D/E	-0.003**	-0.001***	-0.001***	0.003	-0.001***	-0.001***	0.002	-0.001***	-0.001**	-0.002	-0.002***	-0.002***
	(-2.07)	(-10.51)	(-6.36)	-1.58	(-6.74)	(-4.31)	-0.75	(-7.88)	(-4.82)	(-0.89)	(-8.43)	(-6.53)
LDR	-0.002	0	0	0.002**	0.001**	0.003***	0.002	0.001*	0.002***	0	0	0
	(-1.29)	(-1.06)	(-0.25)	-2.02	-2.35	-3.24	-1.42	-1.68	-2.98	(-0.28)	(-0.92)	-0.23
LIQ	0.121***	0.009**	-0.052***	0.291***	0.029***	0.001	0.253***	0.025***	-0.008	0.121***	0.009***	-0.037***
	-2.92	-2.23	(-5.22)	-5.62	-5.77	-0.11	-5.28	-5.35	(-0.67)	-3.02	-2.63	(-4.67)
GDPG	0.006	-0.002	0.03	-0.028	-0.004	-0.006	-0.018	-0.002	-0.003	0.231***	0.023***	0.026*
	-0.031	(-0.07)	-0.22	(-0.20)	(-0.19)	(-0.18)	(-0.12)	(-0.13)	(-0.11)	-2.82	-3.25	-1.74
INF	-0.009	-0.016	-0.084	0.252	0.018	-0.048	0.16	0.008	-0.053	0.11	0.013	-0.014
	(-0.03)	(-0.62)	(-1.42)	-1.26	-1.01	(-1.24)	-0.88	-0.41	(-1.33)	-0.9	-1.2	(-0.60)
Constant	-1.223***	-0.106***	-0.182***	-1.32***	-0.117***	-0.016	-1.29***	-0.111***	-0.038	-1.027***	-0.067***	-0.022
	(-7.62)	(-7.00)	(-4.68)	(-6.41)	(-6.01)	(-0.35)	(-7.02)	(-6.31)	(-0.99)	(-5.84)	(-4.63)	(-0.64)

Table 4.3 indicates that political connections exert a negative impact on the bank performance indicator (NIM) and show no statistically significant effect on ROE and ROA. In the FGLS model, the coefficient of PC is positive and weakly substantial (0.002, t-value = -1.9), suggesting a slight beneficial influence of political connections on net interest margins in this specification. Meanwhile, SO consistently exhibits an adverse effect on NIM, and remains statistically insignificant for ROE and ROA. This implies that a higher level of state ownership is associated with lower profitability, reflecting potential inefficiencies or constraints within state-controlled banks.

In this study, the GMM approach proposed by Arellano and Bover [37] and Blundell and Bond [38] are employed to examine the relationship between political connections and bank profitability indicators, namely ROA, ROE, and NIM. The participation of politically connected members can simultaneously generate advantages in accessing resources while also posing potential moral hazard and abuse of power risks if effective monitoring mechanisms are absent. This situation exemplifies a classic endogeneity problem, in which governance characteristics and financial performance are mutually endogenous and evolve. Therefore, applying the GMM estimation technique is essential to ensure the consistency and unbiasedness of the parameter estimates, mitigating endogeneity and dynamic panel bias in the model.

Table 4.4: *CEO Political Connections and Bank Performance (GMM)*

	ROA	ROE	NIM
	(2)	(1)	(3)
L.DEP	0.3760	0.744***	0.193
	(1.73)	(8.31)	(0.92)
PC	-0.010*	-0.013*	-0.007***
	(-1.79)	(-1.76)	(-3.37)
SO	-0.032*	-0.113***	-0.029***
	(-1.85)	(-3.82)	(-5.01)
SIZE	0.013**	0.041***	0.009***
	(2.16)	(3.35)	(4.11)
D/E	0.001	0.003***	-0.001
	(0.23)	(3.31)	(-1.45)
LDR	0.0113	-0.004	-0.002***
	(-0.66)	(-1.38)	(-3.12)
LIQ	-0.029	-0.168***	-0.056***
	(-1.05)	(-3.14)	(-3.63)
NPL	-0.026	-0.776**	-0.133***
	(-0.93)	(-2.44)	(-4.50)
GDPG	0.037*	0.279***	0.053**
	(1.98)	(3.14)	(2.73)
INF	0.025	0.232**	-0.196**
	(0.33)	(2.49)	(-2.86)
Constant	-0.378**	-1.209***	-0.217***
	(-2.15)	(-3.30)	(-3.78)
N	220	220	220
Banks	20	20	20
N Instruments	17	19	18
AR-1 *(p-value)*	-1.65 *(0.101)*	-2.76 *(0.005)*	-1.67 *(0.092)*
AR2 *(p-value)*	-0.74 *(0.467)*	-0.73 *(0.479)*	0.94 *(0.354)*
Hansen-J *(p-value)*	2.01 *(0.918)*	15.13 *(0.057)*	10.86 *(0.144)*

SO represents the extent of direct government participation in the ownership structure of banks and its relationship with their profitability. The GMM regression results reveal a clear and statistically significant adverse effect of SO on all three profitability indicators: ROA, ROE, and NIM. This finding not only holds statistical significance but also carries substantial practical implications for Vietnamese JSCBs, particularly those with dominant state ownership such as BIDV, VietinBank, and Agribank. From a theoretical standpoint, the negative impact of state ownership on profitability can be explained through two primary channels: (i) non-profit-maximizing objectives, and (ii) inefficient governance effects. According to Cornett et al. [22] and Dinç [23], banks with a high level of state ownership tend to operate under social and political objectives, providing preferential credit to state-owned enterprises or maintaining macroeconomic stability. These often conflict with the goals of profit maximization and capital efficiency. In the Vietnamese context, this argument is particularly relevant since state-owned or state-controlled banks are typically subject to bureaucratic procedures, slow decision-making processes, and administrative appointment mechanisms that prioritize hierarchy over market-based competence. These institutional constraints reduce strategic adaptability and limit managerial innovation, ultimately impairing ROA, ROE, and NIM. Furthermore, the results support the argument of Boubakri et al. [24], whose findings associate state ownership with moral hazard and the "soft-budget constraint" effect, whereby banks anticipate government support in the event of financial distress. This expectation weakens their risk management discipline and fosters inefficiency. In a competitive economic environment, such rigidity and lack of innovation inevitably erode banks' actual profitability. From a policy perspective, this finding highlights the urgent need for the government to shift its role from direct ownership to strategic regulation. Rather than intervening in banks' internal operations through ownership control, the State should focus on establishing a transparent legal framework, promoting fair competition, and adopting international governance standards, as recommended by OECD (2021) and the World Bank (2020). Restructuring ownership by reducing the state's equity share in JSCBs, combined with corporate governance reforms, would enhance operational flexibility, improve profitability, and strengthen the overall competitiveness of Vietnam's banking system.

The PC exhibits a negative and statistically significant impact on bank profitability across all three performance indicators. This finding aligns with the social capital theory, which posits that political relationships may provide firms with strategic advantages through privileged access to resources, information, and government support [6] . Theoretically, when a bank's CEO maintains close ties with government entities, the institution may benefit from preferential policies, greater access to refinancing credit, and advantages in managing non-performing loans or government bond transactions. However, in the Vietnamese context, many JSCBs tend to appoint board members or CEOs originating from government agencies, ministries, or local

authorities. While such appointments can facilitate administrative coordination and strengthen institutional relationships, they also tend to reduce managerial independence, slow down strategic innovation, and increase susceptibility to policy-driven decisions rather than market-oriented governance.

5. Conclusion

First, it is essential to redefine the role of the State from that of an operational owner to a market-oriented regulator. Maintaining dominant state ownership in major banks continues to constrain strategic decision-making through bureaucratic mechanisms, thereby delaying adaptation and innovation in business models. Government authorities should shift their focus toward establishing a transparent financial institutional framework, promoting fair competition, and strengthening effective supervision, rather than engaging in direct administrative intervention. This orientation is consistent with the recommendations outlined in the OECD (2021) and World Bank (2020) reports, which emphasize the need for the State to act as a facilitator of governance reforms and market discipline, rather than as a controlling shareholder.

Second, it is necessary to accelerate the privatization process and gradually reduce the proportion of state ownership in a well-controlled manner. This approach not only allows banks to operate more dynamically but also promotes the adoption of international governance standards through the attraction of strategic investors, improved financial transparency, and enhanced accountability. Evidence from emerging markets such as Indonesia and Brazil demonstrates that post-privatization banks achieved significant improvements in ROA and ROE, attributed to more professional governance structures and stronger capital-raising capabilities [24] .

Third, the appointment and performance evaluation mechanisms for senior executives in state-owned or state-controlled banks should be reformed to ensure that market-based competency criteria, rather than administrative seniority, guide leadership selection. Such reforms would foster professional management, while reducing moral hazard and budgetary dependency, both of which have historically contributed to inefficiency and inertia. To strengthen the competitiveness and efficiency of the banking sector, the Government should proactively restructure ownership, modernize governance frameworks, and assume the role of a smart regulator, creating, rather than substituting for, market forces. This transformation will serve as a critical lever to enhance financial performance, stimulate innovation, and deepen Vietnam’s banking industry's international integration in the coming years.

Political connections can only generate value when accompanied by strong power control mechanisms, transparent supervision, and a clear separation between governance and political functions. To achieve this, several measures should be implemented: (1) Mandatory and periodic

disclosure of board members with political affiliations, including their former and current positions in public institutions; (2) Strengthening the role of internal audit and risk management committees in assessing decisions that exhibit potential conflicts of interest or favoritism toward specific groups; (3) Aligning internal governance regulations with the Basel corporate governance standards for banks and the OECD Guidelines on Corporate Governance of State-Owned Enterprises (OECD, 2021).

In a transitional institutional environment such as Vietnam, reliance on political connections can be a double-edged sword that can facilitate access to resources while simultaneously undermining autonomy and innovation capacity. Therefore, fostering an organizational culture that values both performance efficiency and political connectivity, as well as regulatory compliance and managerial independence, is essential for improving governance quality and enhancing banks' long-term competitiveness. As Vietnam's banking sector undergoes digital transformation, international integration, and increasing competition from fintech firms and non-bank financial institutions, establishing an independent and professional governance structure, clearly separated from political influence, becomes a critical priority. Such a structure will strengthen operational efficiency, profitability, and systemic stability, thereby supporting the sustainable development of the Vietnamese banking system.

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