# FINANCIAL PERFORMANCE OF STATE-OWNED ENTERPRISES: DOES POLITICAL IDEOLOGY PLAY A ROLE?


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## ABSTRACT

Corporatization in the public sector entails decentralizing the provision of public goods and services to more autonomous entities, including state-owned enterprises (SOEs). However, limited attention has been given to understanding if incumbents' ideology shapes SOEs' financial performance once they are established. We hypothesize that the more right leaning the incumbent, the greater the SOEs' financial performance. Nevertheless, the effects of ideology may be nonlinear. Thus, we investigate whether the association of incumbents' ideologies with SOEs' financial performance is weaker when right-leaning incumbents' parties display non-policy behaviors (e.g., by prioritizing electoral outcomes or office occupation). We analyze a 2018–2022 panel of 317 SOEs controlled by 27 subnational governments in Brazil, and results confirm our hypothesis. Our research contributes to scholarship on the drivers of public organizations' financial performance and sheds light on the role of political contingencies.



**Keywords:** Corporatization; State-Owned Enterprises; Panel Data; Financial Performance; Political Ideology.

## 1. INTRODUCTION

State-owned enterprises (SOEs) combine different levels of state and private ownership and control (Andrews et al., 2022; Grossi et al., 2015), as well as a diverse set of financial objectives and public interest goals. Public administration (PA) scholars highlight that governments, especially when faced with fiscal challenges, consider corporatization as a solution to alleviate public budgets, such as creating financially sustainable corporations (Lindlbauer et al., 2016; Rackwitz & Raffer, 2024). Therefore, financial performance is at the core of the corporatization phenomenon, driving the creation and proliferation of SOEs (Andrews et al., 2020). PA research has also explored the role of executive branch officials' political ideology as a contingency factor shaping corporatization (Alonso et al., 2022). Some scholars suggest that right-leaning ideologies are associated with more corporatization implemented through partnerships with the private sector (Alonso et al., 2022; Tavares & Camões, 2010). Conversely, others find no evidence of an association of ideology with corporatization (Andrews et al., 2020).

Despite acknowledging the role of financial sustainability as a determinant of corporatization and the role of political ideology as a potential contingency, research has only started to examine the connection between incumbents' political ideology and SOEs' financial performance (Aguilera et al., 2021). This underexplored topic is theoretically interesting because there is evidence that political ideology shapes private sector corporations' tradeoffs between financial and social goals (Briscoe et al., 2014; Gupta et al., 2017; Jiang et al., 2018). Therefore, there is theoretical reasons to expect that the same happens, perhaps even more strongly, in the case of SOEs, particularly when considering their public interest goals and shared ownership (Aguilera et al., 2021).

Furthermore, the gap is concerning because SOEs tend to operate beyond political cycles. Successive governments, with different executive branch compositions, tend to exert distinct pressures on SOEs' financial performance over time, which may vary in terms of the strength and objectives according to their political ideologies. In this context, this study answers the following research question: Is incumbents' political ideology associated with SOEs' financial performance?

We anticipate that incumbents will be more or less prone to influence SOEs' management according to their views on the state's role in addressing economic and social issues. The more right leaning the incumbent, the greater the pressures on SOEs' financial performance. This is because the political right pursues less state intervention and places "lower emphasis on a welfare state" (Aguilera et al., 2021, p. 3), which leads them to prioritize financial and economic outcomes in public organizations over social goals. Therefore, our first hypothesis is that the more right (left) leaning the incumbent, the greater (weaker) the SOEs' financial performance.

Additionally, incumbents' decisions are also potentially linked to their political parties' goals and behaviors (Wolinetz, 2002), which suggests that incumbents' ideologies might not be the only political contingency shaping SOEs' financial performance. When a right-leaning incumbent's party predominantly seeks non-policy goals (e.g., the party prioritizes other types of objectives, such as maximizing votes or occupying offices), it is reasonable to expect that the incumbent's pressure on SOEs' financial performance will be lower. Therefore, our second hypothesis is that when a right-leaning incumbent's party's behavior is not policy driven, the association between the incumbent's ideology and the SOEs' financial performance is weaker.

To test our hypotheses, we examine an unbalanced 2018–2022 panel of 317 SOEs of 27 Brazilian subnational governments (states)—a relevant context because of its trajectory of PA corporatization through the creation of SOEs. The 1,116 SOE-year observations are distributed across 18 industries. Our empirical setting benefits from the fact that Brazil is a federation with significant political and ideological heterogeneity across state governments that also maintains legal and institutional uniformity.

The results of our empirical analysis confirm the hypothesized association between incumbents' political ideology and SOEs' financial performance, as well as the moderating role played by the incumbent's political party's behaviors and goals. We use Feasible Generalized Least Square (FGLS) models for panel data, including a comprehensive set of control variables and heteroskedastic errors, as well as industry and year fixed effects. In our main models, our dependent variable is operationalized as "Profit Before Subventions," which represents the financial performance of SOEs without any support from the government. The results hold with different robustness checks, such as: using a winsorized dependent variable; controlling for autocorrelation; using a restricted dataset with only SOEs that have non-negative equity and that are not being liquidated; and using alternative dependent variables, such as "Return on Equity" and "Return on Contributed Capital."

Our study makes important contributions to PA scholarship. We expand research about the financial performance of public organizations, such as SOEs (Aharoni, 1981; Vining et al., 2021), by evidencing that incumbents' political ideologies shape SOEs' financial performance. Our findings further extant scholarship, which has neglected the effects of incumbents' ideology on public sector organizations' financial performance during their life cycle, despite examining how political ideology is associated with public administration choices (e.g., contracting out, privatization, and corporatization). Furthermore, we shed light on a nonlinear pattern that has not been assessed in the PA literature: the incumbent party's non-policy behavior moderates the association of the incumbent's ideology with SOEs' financial performance. Our research is grounded in a consolidated political science typology of political parties' goals and behaviors (Muller & Strom, 1999; Strom, 1990; Wolinetz, 2002). Neglecting the importance of this political contingency variable—generally overlooked in current empirical studies that assume linear effects—may hinder our understanding of the effects of ideology on public administration outcomes.

The remainder of this paper is organized as follows: Section 2 presents the underlying theoretical background and hypotheses development; Section 3 describes the dataset used in the empirical analysis of the hypotheses and the methods employed in the empirical strategy; Section 4 describes the results of the econometric models and the robustness checks; and Section 5 discusses the findings and presents the conclusions, including the final remarks, contributions, and limitations of the study.

## 2. THEORETICAL BACKGROUND AND HYPOTHESES DEVELOPMENT

SOEs are becoming increasingly relevant social and economic providers around the globe in both developed and developing countries (OECD, 2017) and at national and subnational levels (Andrews et al., 2022). In recent years, SOEs' presence is also spreading out across levels of government, especially at the European local level, in the context of the ongoing corporatization phenomenon in public administration (Alonso et al., 2022; Andrews et al., 2020, 2022; Berge & Torsteinsen, 2022; Da Cruz & Marques, 2012). Consequently, although the study of SOEs is not a novelty (Rubin, 1988; Seidman, 1954), PA scholars have increasingly devoted attention to it (Aars & Ringkjøb, 2011; Bernier & Hafsi, 2007; Vining et al., 2021).

Among other reasons why governments corporatize, PA research highlights that governments faced with fiscal challenges seek solutions that have the potential to alleviate public budgets, such as creating financially sustainable corporations (Andrews et al., 2020; Lindlbauer et al., 2016; Rackwitz & Raffer, 2024). For instance, an SOE—as a type of PA corporation—can raise its own revenues and partner with the private sector to operate and invest without overburdening the public budget (Tavares & Camões, 2010). SOEs can also benefit from the private sector's expertise and flexibility in providing goods and services more efficiently (Da Cruz & Marques, 2012). Therefore, financial performance is at the core of the corporatization phenomenon, which leads to the creation and proliferation of SOEs.

In this context, PA scholars show that corporatized entities such as SOEs lead to better efficiency in the provision of public goods and services in comparison to their typical public sector counterparts, such as governmental departments and executive agencies (Lindlbauer et al., 2016; Voorn et al., 2017, 2022). The main reason is that corporatization makes the new entities more autonomous from politics, which is replaced to a certain degree by professionalism (Bourdeaux, 2008). Moreover, corporatization may reduce agency costs, better align with the interests of the different stakeholders, and foster flexibility in decision-making, which generates efficiency gains (Lindlbauer et al., 2016). Nevertheless, it has been found that corporatized PA has high failure rates, such as the dissolution of the entity (Andrews, 2022; Voorn et al., 2017), which are associated with the levels of political control exercised by governments (Andrews, 2022). In addition, political connectedness negatively affects the performance of these entities (Menozzi et al., 2012). Thus, the PA literature agrees that corporatization does not completely shield public entities from political control and therefore highlights the importance of political variables in shaping SOEs' performance.

A robust body of management, finance, and economic literature indicates that SOEs are more likely to have lower financial performance than similar firms owned exclusively by the private sector because they are subject to political pressures that shape the tradeoffs between their financial and non-financial objectives. State ownership leads SOEs to pursue social welfare and/or industrial policy purposes in addition to financial objectives, which impairs profitability (Bai & Xu, 2005; Shirley & Nellis, 1991). Additionally, SOEs' managers tend to pursue political objectives and consequently divert organizational resources and/or outcomes to the detriment of efficiency and financial performance (La Porta & López-de-Silanes, 1999;

Shleifer, 1998; Shleifer & Vishny, 1994). These diverse research findings reaffirm the relevance of political factors in determining SOEs' outcomes.

Nonetheless, empirical evidence on how political ideology is associated with SOEs' financial performance is still scarce in the PA literature (Andrews et al., 2020). Political ideology can be understood as an interrelated set of attitudes, behaviors, and values about the goals of society and how they should be achieved, and is commonly portrayed as a left–right continuum (Aguilera et al., 2021). Thus, it is expected that incumbents' ideologies may shape their decisions about the tradeoffs between public sector organizations' financial and social goals. A few PA studies indicate that right-leaning incumbents tend to partner with the private sector when creating SOEs (e.g., by establishing specific purposes mixed SOEs) more often than their left-leaning counterparts (Alonso et al., 2022; Tavares & Camões, 2010). However, these studies are limited to analyzing the role of political ideology within the realm of the corporatization decision, neglecting the effects of ideology over the life cycle of the corporatized entity. This is concerning because SOEs tend to operate beyond political cycles. Successive governments with different executive branch compositions tend to exert distinct pressures on SOEs' financial performance over time, which may vary in terms of strengths and objectives according to their political ideologies.

This gap in the PA literature is also theoretically instigating because management research suggests that political ideology shapes private corporation's tradeoffs between financial and social goals. Jiang et. al. (2018) found that firm managers in China who hold a more left-leaning political ideology (i.e., those who are stronger in their socialist position) are more likely to support corporate socially responsible activities in their firms, while those with a less left-leaning ideology are more likely to pursue financial outcomes. In a similar vein, Xu et al. (2021) show that more liberal U.S. firms have stronger corporate social performance than conservative ones. The rationale is that left-leaning managers tend to exhibit more concern and care about environmental, social, and governance issues (Murtha & Lenway, 1994), hence they typically steer their firms toward more socially responsible activities (Briscoe et al., 2014; Xu et al., 2021). In this context, there is no reason to expect that SOEs would be an exception, particularly when considering their public interest goals and shared ownership.

We contend that incumbents' political ideology matters for SOEs' strategic choices about the tradeoffs between financial objectives and public interest goals. First, when the state is the majority shareholder of an SOE, the incumbents will appoint the majority of its directors and executives (OECD, 2017). Incumbents "may prefer managers and directors similar to themselves in terms of political ideology" (Aguilera et al., 2021, p. 3) and may also "be tempted to appoint politicians or politically connected executives as CEOs" (Musacchio et al., 2015, p. 120). Thus, when incumbents are left leaning, they will tend to appoint more left-leaning executives. Covnersely, when incumbents are right leaning, they will more likely appoint more right-leaning executives. This means that the pressures naturally deriving from the political arena will permeate the SOEs through politically connected directors and executives.

Second, the political left is considered more prone to supporting state intervention in economic and social issues, and striving for "political ideals like egalitarianism, a fair distribution of wealth and income, and the enactment and maintenance of a welfare state" (Aguilera et al., 2021, p. 3), which may lead to a lower emphasis on public organizations' financial outcomes. Thus, it is reasonable to expect a left-leaning incumbent to be more likely to pressure SOEs' managers to focus more fiercely on public interest goals than on financial performance (Briscoe et al., 2014; Jiang et al., 2018; Murtha & Lenway, 1994; Xu et al., 2021). Conversely, the political right pursues less state intervention, and places "lower emphasis on a welfare state" (Aguilera et al., 2021, p. 3), which leads to prioritizing financial and economic outcomes in public organizations. Consequently, it is reasonable to expect more focus on financial performance than on social goals from a right-leaning incumbent.

Corroborating this line of reasoning, empirical evidence in PA research shows that English “left-wing controlled local governments exhibit a marked aversion to private sector involvement in service provision and a clear preference for in-house service provision” (Alonso & Andrews, 2020, p. 743). Furthermore, Spanish “right-wing controlled regional governments exhibit a clear preference for corporatization strategies that actively involve the private sector, such as Public–Private Partnerships and Public Finance Initiatives” (Alonso et al., 2022). Portuguese local governmental evidence suggests that ideological concerns drive local governance structure choices (Tavares & Camões, 2010). These findings are not unanimous, because another study finds that “systemic entrepreneurial activity within English local governments does not depend on left-wing or right-wing political control” (Andrews et al., 2020, p. 482). Nevertheless, this evidence indeed indicates that political ideology may play a role in shaping the decision-making process that leads to corporatization (e.g., creation of SOEs). Hence, there is reason to expect that incumbents’ ideologies may shape the financial and non-financial performance of corporatized entities over their life cycle (Aguilera et al., 2021; Menozzi et al., 2012) such as SOEs. In this context, our first hypotheses are:

***H1****: The more right leaning the incumbent, the greater the SOEs’ financial performance.*

***H2****: The more left leaning the incumbent, the weaker the SOEs’ financial performance.*

However, the association between the incumbent’s political ideology and SOEs’ financial performance may be nonlinear, which might partly explain the abovementioned inconsistent findings. Incumbents’ decisions are often intimately linked to their political parties’ goals and behaviors (Wolinetz, 2002). Given that parties are systematically involved in electoral competition and coalition formation (Muller & Strom, 1999), the pressures exerted by them on incumbents’ decisions reflect not only ideological traits, but also parties’ actual goals and behaviors in the political arena. These pressures exist because incumbents’ decisions are influenced by elected party officials or by those under their control. Public officials are commonly recruited through political parties, which also hold them accountable (Muller & Strom, 1999).

According to a consolidated typology largely adopted in the political science field (Strom, 1990), there are three broad categories of political parties that differ from each other in terms of their predominant types of goals and behaviors. The first category—the policy-seeking party—aims to maximize its role in the definition and implementation of public policies. Policy-driven goals may imply that parties take stronger policy positions and exert pressures more fiercely on specific policy dimensions over their incumbents (Muller & Strom, 1999; Wolinetz, 2002). The second category—the office-seeking party—in turn, pursues control over political offices (Strom, 1990). This kind of party behavior is explained by the fact that "a party might strive to capture executive office because its leaders simply want the spoils (perquisites)" or because "they think they can gain favor with the voters by exploiting the advantages of incumbency." (Muller & Strom, 1999, p. 6) Potential office benefits also include "government contracts, preferential treatment, and whatever other rents accrue to political parties" (Muller & Strom, 1999, p. 6). Finally, the third category—the vote-seeking party—wants to maximize its electoral support to control the government (Strom, 1990; Wolinetz, 2002).

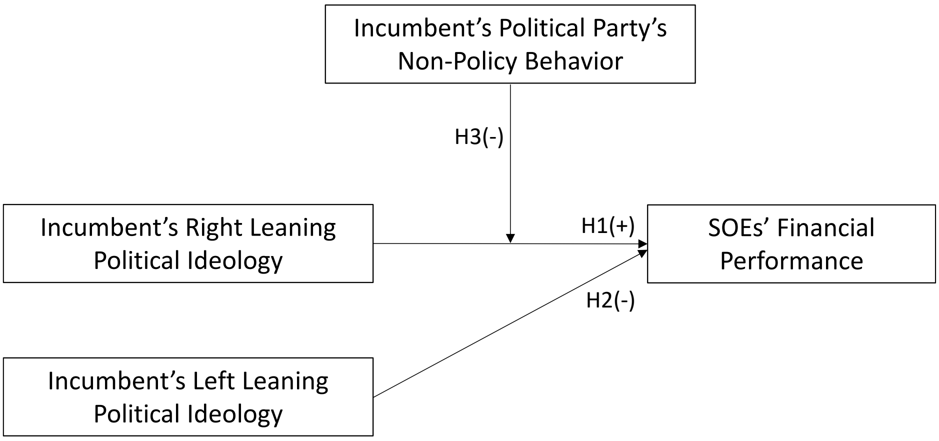
Although these three main categories of behaviors and goals may coexist and even be instrumental within a single party (Muller & Strom, 1999), it is common that one or two of them evolve to be more salient than the others, shaping in different ways both the parties' behaviors and the pressures they exert over incumbents (Bolognesi et al., 2023; Strom, 1990). Consequently, we expect that the association of incumbents' political ideology with SOEs' financial performance will be stronger or weaker depending on the predominant goals and behaviors of each incumbent's party.

Political parties that are more policy driven prioritize their ideological beliefs and values and are less likely to compromise them (Wolinetz, 2002). Conversely, political parties that are more focused on non-policy goals (e.g., maximization of votes, office, or both) are more flexible with their ideological traits (Wolinetz, 2002). Consequently, we can expect that the pressures exerted on SOEs' financial performance by a right-leaning incumbent whose party's behavior is not policy driven may be lower than those exerted by a similar right-leaning counterpart whose party's predominant behavior is policy driven. The reason is that right-leaning ideologies imply that policy preferences involve better financial performance in public organizations like SOEs. Thus, if the pressures toward policy-driven goals are weaker, the effects of a right-leaning ideology on financial performance will be lower. In this context, our third hypothesis is:

> ***H3:*** *When a right-leaning incumbent's political party's behavior is not policy driven, the association between the incumbent's political ideology with SOEs' financial performance is weaker.*

Figure 1 depicts our hypothesized associations. We focus on right-leaning incumbents because their political ideology is aligned with policy focused on the financial performance of SOEs. The pressures exerted by a left-leaning incumbent's ideology on SOE performance, as discussed earlier, are focused on the social dimension, rather than on financial outcomes. In other words, the financial performance of SOEs tends to be lower when the incumbent government is left leaning because there are greater pressures on social outcomes (rather than on financial performance). Thus, it does not make sense to hypothesize a moderating role of a left-leaning incumbent's party's non-policy behavior on the association between incumbent's ideology with SOEs' financial performance. It will be more plausible to argue for a moderating effect regarding SOEs' social performance, which is beyond the scope of this research.

**Figure 1:** Hypothesized associations




## 3. DATA AND METHODS

### 3.1. Sample

To test our hypotheses, we analyzed a dataset composed of 317 Brazilian SOEs controlled by 27 subnational governments (states). The unbalanced panel spans 2018–2022 and includes 1,116 SOE-year observations. We focus on Brazil because its political and administrative organization as a federative state is unique and valuable for our topic. Brazil is a democratic country with regular elections since 1988, which provides heterogeneity in terms of the political ideologies of its incumbents at the subnational level. Although the dataset is from a single country, it allows for comparison of the effects of heterogeneous political ideology on SOEs owned by different governments within the same broader national institutional-legal framework. Brazil also fits with our purpose because SOEs have been traditionally used by governments to pursue public interest goals in the context of corporatization strategies.

Moreover, given that extant research on corporatization and SOEs is almost exclusively based on European single-industry empirical settings (Alonso et al., 2022; Andrews et al., 2020; Berge & Torsteinsen, 2022; Da Cruz & Marques, 2012; Rackwitz & Raffer, 2024; Tavares & Camões, 2010), our results enrich the literature because they present an emerging Latin American economy's context and include SOEs on a multi-industry perspective (18 different industries).

Information about SOEs in our dataset is publicly available on the Brazilian National Treasury Secretariat's website (Brazil, 2022). These data were obtained from a survey conducted by the federal government about state-level SOEs in Brazil in which each Brazilian state provided annual information about its own SOEs (2018–2022).

### 3.2. Dependent Variables

Our main measure of financial performance is operationalized as the SOEs' annual profit before any subventions received from the government ("Profit Before Subvention"—PBS). This indicator represents the actual annual financial outcome achieved by the SOE without any financial support from the government.

We also use two additional dependent variables as robustness checks. The first is the "Return on Equity" (ROE), calculated as PBS divided by "Total Equity." ROE is a measure of profitability extensively used in management and finance research to assess the financial performance of firms. The second is "Return on Contributed Capital" (RCC), calculated as PBS divided by "Contributed Capital." We use this second alternative variable given that, on some occasions, the Total Equity of an SOE may be systematically impacted by recurrent losses and additional capital paid by the government. These two alternative dependent variables allow us to check whether the results of our estimations hold for different measures of SOEs' financial performance. The reason for not using these two alternative variables as our main dependent variables is that they have fewer observations (respectively, 897 and 538 observations) than the PBS. Nonetheless, they serve as important robustness checks.

### 3.3. Independent Variable

We operationalize the incumbent's political ideology by using the position of the government executive branch chief's political party in a left–right continuum (Aguilera et al., 2021). As Bolognesi et al. (2023) highlight, "the differentiation of political parties between left and right is often based on their stance on the unidimensional role of state intervention in the economy... and the defense of social equality as a natural or constructed phenomenon" (p. 4). Prior literature also classifies Brazilian political parties on a left–right continuum (Power & Zucco, 2009; Tarouco & Madeira, 2015; Zucco, 2011).

We adopt Bolognesi et al.'s (2023) ideological classification of Brazilian political parties for three main reasons. First, their study was developed in the same time horizon as the data in our dataset. Second, its overall left-to-right ordering of parties' ideologies is in line with other studies on Brazilian parties (Power & Zucco, 2009; Tarouco & Madeira, 2013, 2015; Zucco, 2011), despite some differences attributable to time and methods employed in each study. Third, it is based on a survey of experts with strong credentials in assessing parties' ideologies (Benoit & Laver, 2006).

Bolognesi et al. (2023) developed a 0–10 scale to classify political parties according to their ideologies: far-left, 0–1.5; left, 1.51–3; center-left, 3.01–4.49; center, 4.5–5.5; center-right, 5.51–7; right, 7.01–8.5; and far-right, 8.51–10. As our main dependent variable ("Political Ideology"), we use the ideology scores in our main models, instead of these categories.

Additionally, we also grouped both the first and last quartiles of observations found in the Political Ideology variable to create, respectively, "Left Leaning" and "Right Leaning" dummy variables. By grouping observations in which the governments are more left or right leaning (that is, those that are nearer the extreme sides of the ideological spectrum), we can more accurately distinguish the effects of each type of ideology. We then use these dummies as a different approach for the independent variable.

We manually searched governmental websites to find the political party affiliations of executive branch chiefs of subnational (state) governments during 2010–2022. Subsequently, we matched them with Bolognesi et al.'s (2023) political ideology scores and included them as a numeric variable (Political Ideology) in our dataset.

### 3.4. Moderating Variable

We retrieved our moderating variable also from Bolognesi et al.'s study (2023), which identified the three categories of behaviors of Brazilian political parties in 2018: policy-seeking, office-seeking, or vote-seeking behaviors. Following a model proposed by Muller and Strom (1999) and Wolinetz (2002), Bolognesi et al. (2023) presented a figure with a triangle for each of the political parties in Brazil that showed their typical behaviors. Each category of behavior (policy-, office-, or vote-seeking) was illustrated within a scale represented from the center of the triangle toward each of its vertices. By visualizing the triangles, we coded a dummy variable ("Non-Policy") that received a "1" whenever the party did not display a high level of policy-seeking behavior (that is, when the party displayed predominantly vote-seeking or office-seeking behaviors, or both). This was accomplished by checking whether policy-seeking behavior scored less than half of the scale in the correspondent vertex of the party's triangle.

### 3.5. Control Variables

Table 1 presents details of and reasons for using the control variables in our models. We also implemented dummy variables that serve as controls for industry and year fixed effects.

### 3.6. Econometric Design

The econometric model to test our hypotheses is specified as follows (Equation 1):

$$DV_{it} = \beta_1 POL\_IDEO_{it} + \beta_2 NONPOLICY_i + \beta_3 POL\_IDEO_{it}\ X\ NONPOLICY_i + \delta^k CONTROLS + \alpha + \mu + \varepsilon_{it} \quad (1)$$

where $DV_{it}$ stands for the dependent variable (*PBS*, *ROE*, or *RCC*) of SOE *i* at time *t*; $POL\_IDEO_{it}$ indicates the political ideology of the incumbent in a state that is the owner of SOE *i* at time *t*; $NONPOLICY_i$ is a dummy variable indicating whether the SOE *i* is owned by a government whose incumbent's party's behavior is non-policy driven; $\delta$ is a vector of coefficients for the different control variables of the study (*k* is the number of control variables); *CONTROLS* is a vector of control variables; $\alpha$ and $\mu$ respectively represent industry and year fixed effects; and $\varepsilon_{it}$ is the error term.

**Table 1:** Control Variables Used in Econometric Models

| Variable | Description | Source | Reason for use |
|---|---|---|---|
| *Mixed SOE* | Dummy variable indicating whether the SOE is a mixed company or 100% owned by the state | STN | The presence of private capital in the SOE may affect its financial performance. Moreover, being listed in stock exchanges implies more robust corporate governance mechanisms, control, and transparency, which may affect performance (Aguilera et al., 2021; Andrews et al., 2020; Bruton et al., 2015; Lazzarini & Musacchio, 2018; Vining et al., 2021). |
| *Listed SOE* | Dummy variable indicating whether the SOE is listed in a Stock Exchange | STN | |
| *Equity* | The total equity of the SOE (in R$ millions) | STN | The size of the SOE may affect its financial performance (Aguilera et al., 2021; Lazzarini & Musacchio, 2018). |
| *Number of Employees* | Number of SOE employees | STN | |
| *Financially Independent SOE* | Dummy variable indicating whether the SOE is formally recognized by the government as being independent on governmental subventions | STN | Being formally recognized as dependent on governmental subventions may intensify the soft budget constraints effects that are typical for SOEs, and ultimately impact financial performance. |
| *SOE in Termination* | Dummy variable indicating whether the SOE is being terminated/liquidated by the government | STN | Liquidation in progress may affect financial performance of the SOE. |
| *Audit Committee* | Dummy variable indicating whether the SOE has an Audit Committee | STN | Governance mechanisms and internal controls are associated to SOEs' financial and non-financial performance (Bruton et al., 2015; Calza et al., 2016; Grossi et al., 2015; Khan et al., 2013). |
| *State Fiscal Situation* | The ratio between the State's primary *superavit* and its net current revenues | STN | The fiscal situation of the states and its dependence on Federal transfers, along with the socio-economic conditions under which the population lives, may affect the temptation of governments to intervene in SOEs' management and ultimately affect their tradeoffs between social and financial performance (Andrews et al., 2020; Lazzarini & Musacchio, 2018). |
| *State Dependence on Federal Transfers* | The percentage of the State's revenue that does not refer to Federal transfers (ratio of the own State's revenues) | STN | |
| *State Human Development Index* | Indicates the State's Human Development Index (HDI) | IpeaData | |
| *State Population* | The number of inhabitants in the state (in millions) | IpeaData | The size of the state may be associated with the state capacity and ultimately affect financial and non-financial performance of SOEs (Aguilera et al., 2021; Alonso et al., 2022; Bruton et al., 2015; Lazzarini & Musacchio, 2018). |

## 4. RESULTS

Table 2 presents the descriptive statistics and pairwise correlations for the variables used in our econometric models. None of the correlations among independent, moderating, and/or control variables exceeds 0.75, indicating that multicollinearity is not a serious issue. There is only a moderate correlation between "Non-Policy Party Behavior" and Political Ideology. This is because, as shown in Table 3, none of the observations with a left-leaning incumbent is simultaneously classified as referring to an incumbent whose political party is not policy driven. However, there is a great level of variability in the behavior of incumbents' party when the incumbent is right leaning, allowing us the conditions to consistently check H2.

Models 1–5 of Table 4 present our main panel data FGLS regressions results. Model 1 shows that the coefficient of our main independent variable (Political Ideology—scale) is positive and significant (Model 1: $\beta = 4.79$, $p < 0.05$). That is, the greater the political ideology score of the government (i.e., the more right leaning it is), the greater the SOEs' financial performance, as measured by "Profit Before Subventions." This result is corroborated by the coefficient of the Right Leaning dummy variable in Model 3, which is also positive and significant (Model 3: $\beta = 24.01$, $p < 0.01$). In other words, when the incumbent's ideology score is in the fourth quartile of the Political Ideology variable (nearer the right-leaning extreme of the ideology continuum), the greater the Profit Before Subventions. The coefficient of the left-leaning dummy variable in Model 2 is negative and significant, suggesting that, conversely, left-leaning incumbents imply decreased SOE financial performance (Model 2: $\beta = -20.95$, $p < 0.05$).

Model 4 of Table 4 shows a negative and significant coefficient for the interaction term between the incumbent's political ideology and their party's non-policy behavior (Model 4: $\beta = -10.41$, $p < 0.01$). The same result holds when we consider the interaction term with the right-leaning dummy instead of the political ideology score (Model 5: $\beta = -141.86$, $p < 0.01$). It is worth noting that, even in these models that include the interaction terms, the coefficients of the "Political Ideology" (scale) and "Right Leaning" (dummy) variables remain significant and positive in Models 4 and 5.

**Table 2:** Descriptive Statistics and Correlations

| Variables | Mean | Std. Dev. | Min. | Max. | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) PBS | 52.29 | 457.90 | −4719.91 | 5048.60 | 1.00 | | | | | | | | | | | | |
| (2) Pol. Ideology | 6.51 | 1.94 | 2.97 | 8.57 | 0.04 | 1.00 | | | | | | | | | | | |
| (3) Non-Policy | 0.54 | 0.50 | 0 | 1 | −0.07 | 0.70 | 1.00 | | | | | | | | | | |
| (4) Mixed SOE | 0.68 | 0.47 | 0 | 1 | 0.10 | −0.02 | 0.06 | 1.00 | | | | | | | | | |
| (5) Listed SOE | 0.03 | 0.18 | 0 | 1 | 0.47 | 0.09 | 0.01 | 0.13 | 1.00 | | | | | | | | |
| (6) Equity | 762.15 | 3080.83 | −7977.26 | 35306.45 | 0.43 | 0.01 | −0.13 | 0.00 | 0.43 | 1.00 | | | | | | | |
| (7) Indep. SOE | 0.56 | 0.50 | 0 | 1 | 0.18 | 0.02 | −0.09 | 0.25 | 0.17 | 0.18 | 1.00 | | | | | | |
| (8) SOE in Term. | .12 | 0.33 | 0 | 1 | −0.15 | 0.12 | 0.12 | 0.00 | −0.07 | −0.10 | −0.17 | 1.00 | | | | | |
| (9) Audit Comm. | 0.38 | 0.49 | 0 | 1 | 0.22 | −0.01 | −0.18 | 0.07 | 0.23 | 0.29 | 0.43 | −0.27 | 1.00 | | | | |
| (10) # Employees | 858.35 | 2560.90 | 0 | 28109 | 0.28 | 0.05 | −0.17 | −0.02 | 0.39 | 0.46 | 0.15 | −0.12 | 0.32 | 1.00 | | | |
| (11) Fiscal Situation | 0.07 | 0.06 | −0.15 | 0.3 | 0.01 | 0.23 | 0.05 | −0.05 | 0.00 | 0.09 | 0.00 | 0.11 | −0.05 | 0.04 | 1.00 | | |
| (12) Dep. Transfers | 0.69 | 0.15 | 0.27 | 0.94 | 0.02 | 0.28 | −0.07 | −0.06 | 0.13 | 0.18 | 0.17 | 0.04 | 0.17 | 0.15 | 0.20 | 1.00 | |
| (13) State HDI | .76 | 0.04 | 0.68 | 0.86 | 0.04 | 0.32 | 0.11 | −0.11 | 0.15 | 0.14 | 0.19 | 0.01 | 0.21 | 0.10 | 0.02 | 0.51 | 1.00 |
| (14) State Pop. | 10087.67 | 10668.98 | 540 | 46991 | 0.04 | 0.03 | −0.34 | −0.23 | 0.09 | 0.32 | 0.14 | −0.02 | 0.22 | 0.23 | 0.20 | 0.65 | 0.42 |

**Table 3:** Tabulation of Political Ideology Dummies

**Panel A:** Left Leaning

| | Non-Policy | | |
|---|---|---|---|
| **Left Leaning** | **No** | **Yes** | **Total** |
| **No (0)** | 199 | 602 | **801** |
| **Yes (1)** | 315 | 0 | **315** |
| **Total** | **514** | **602** | **1,116** |

**Panel B:** Right Leaning

| | Non-Policy | | |
|---|---|---|---|
| **Right Leaning** | **No** | **Yes** | **Total** |
| **No (0)** | 445 | 301 | **746** |
| **Yes (1)** | 69 | 301 | **370** |
| **Total** | **514** | **602** | **1,116** |

All of these results remain unchanged and clear in Models 6, 7, and 8, which include important robustness checks. As a corporation's financial performance shows a tendency to persist over time (Roberts & Dowling, 2002), we include in Model 6 a specification that controls for panel-specific autocorrelation. In Model 7, we winsorize the Profit Before Subvention variable with 5% at both extremes to minimize the possibility of the results being driven by specific outliers. Finally, in Model 8 we run the estimation on a restricted dataset that excludes all SOEs with negative equity and that are currently in liquidation (termination).

The consistency of the results is corroborated even when we use alternative dependent variables. Models 1 and 2 of Table 5 show that the SOEs' ROE significantly increases when the incumbents' political ideology is more right leaning but decreases when the right-leaning incumbents are from parties that do not have policy-driven behavior. Models 3 and 4 of Table 5 show similar results for RCC.

Therefore, our results support H1 and H2 and empirically demonstrate that the incumbent's political ideology is associated with SOEs' financial performance. The more right leaning the incumbent's ideology, the greater the SOEs' financial performance. Conversely, the more left leaning the incumbent's ideology, the weaker the SOES' financial performance. H3 is also supported by our models, which show that the association between incumbents' political ideology with SOEs' financial performance is weaker when a right-leaning incumbent's party's behavior is not policy driven.

Panels A and B of Figure 2 vividly illustrate the association between the incumbent's political ideology and SOE financial performance (Profit Before Subventions and Return of Equity), as well as the moderating effect of a non-policy behavior of the incumbent's party. As shown, the positive difference in SOEs' financial performance when incumbents are right leaning vanishes when the party's behavior is concomitantly not policy driven.

**Table 4:** FGLS Regression Results for the Main Dependent Variable

| | Main Specifications | | | | | Robustness Checks | | |
|---|---|---|---|---|---|---|---|---|
| DV = Profit Before Subvention (R$ millions) | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 | Model 8 |
| Political Ideology (scale) | 4.79** | | | 8.24*** | | 10.84*** | 3.33*** | 11.75*** |
| | (1.91) | | | (2.08) | | (1.92) | (0.70) | (2.74) |
| Non-Policy Party Behavior | -27.09*** | -30.55*** | -25.54*** | 39.35 | -7.82*** | 100.96*** | 30.89*** | 130.39*** |
| | (8.44) | (9.17) | (5.09) | (24.44) | (3.02) | (16.76) | (10.15) | (31.79) |
| Left Leaning (dummy) | | -20.95** | | | | | | |
| | | (8.66) | | | | | | |
| Right Leaning (dummy) | | | 24.01*** | | 141.89*** | | | |
| | | | (5.18) | | (28.93) | | | |
| Political Ideology (scale) X Non-Policy | | | | -10.41*** | | -19.70*** | -6.46*** | -24.16*** |
| | | | | (3.75) | | (2.89) | (1.44) | (5.05) |
| Right Leaning (dummy) X Non-Policy | | | | | -141.86*** | | | |
| | | | | | (29.21) | | | |
| Mixed SOE | -9.68** | -9.73** | -10.29** | -6.94* | -9.89** | -15.60*** | -3.15*** | -2.70 |
| | (4.31) | (4.19) | (4.95) | (4.22) | (4.47) | (3.43) | (1.19) | (3.48) |
| Listed SOE | 503.13*** | 517.97*** | 526.63*** | 530.48*** | 526.39*** | 527.92*** | 127.23*** | 600.99*** |
| | (68.76) | (63.93) | (70.95) | (63.94) | (64.04) | (87.25) | (18.04) | (64.02) |
| Equity | 0.06*** | 0.06*** | 0.05*** | 0.05*** | 0.06*** | 0.05*** | 0.01*** | 0.04*** |
| | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) |
| Financially Independent SOE | 5.27 | 4.32 | 4.13 | 4.71 | 3.43 | 5.95** | 6.47*** | -0.39 |
| | (3.63) | (3.15) | (4.49) | (3.42) | (3.03) | (2.83) | (1.25) | (3.38) |
| SOE in Termination | -5.67 | -1.56 | -12.22* | 0.03 | -8.01 | -13.86*** | -3.64*** | - |
| | (7.49) | (7.77) | (7.25) | (7.02) | (6.56) | (3.85) | (1.31) | |
| Audit Committee | 5.76* | 6.82** | 11.89*** | 7.76** | 8.22*** | 1.63 | 14.65*** | 5.21* |
| | (3.42) | (3.01) | (4.02) | (3.15) | (2.80) | (1.83) | (1.80) | (3.10) |
| Number of Employees | 0.00*** | 0.00** | 0.01*** | 0.00*** | 0.00 | 0.01*** | 0.00*** | 0.00** |
| | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) |
| State Fiscal Situation | -23.31 | 0.95 | -18.69 | -21.82 | -21.35 | -27.25** | -1.91 | -35.78 |
| | (33.90) | (25.47) | (40.57) | (28.73) | (26.13) | (13.59) | (11.14) | (25.82) |
| State Dependence on Federal Transfers | 10.92 | 15.66 | -0.31 | 21.48 | 16.79 | 90.22*** | 13.38** | 92.44*** |
| | (14.88) | (13.36) | (19.18) | (15.52) | (15.01) | (11.35) | (6.13) | (21.89) |
| State Human Development Index | -61.08 | -30.82 | 14.85 | -72.01* | -22.91 | -40.93 | 32.08** | -103.13*** |
| | (40.22) | (35.90) | (51.21) | (38.86) | (37.43) | (25.34) | (16.16) | (38.98) |
| State Population | -0.00*** | -0.00*** | -0.00* | -0.00*** | -0.00** | -0.00*** | -0.00*** | -0.00*** |
| | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) |
| Constant | 46.05 | 61.19** | 23.42 | 31.12 | 28.46 | -8.85 | -31.43*** | 7.31 |
| | (28.26) | (29.04) | (34.73) | (28.14) | (26.56) | (19.41) | (10.84) | (29.48) |
| Observations | 1,116 | 1,116 | 1,116 | 1,116 | 1,116 | 1,105 | 1,116 | 836 |
| Number of Groups | 317 | 317 | 317 | 317 | 317 | 306 | 317 | 252 |
| Control for Autocorrelation Structure (AR1) | | | | | | Y | | |
| Winsorized DV (5% at both tails) | | | | | | | Y | |
| Restricted Dataset | | | | | | | | Y |

Standard errors in parentheses. All models are estimated with sector and year fixed effects. *** p<0.01, ** p<0.05, * p<0.10

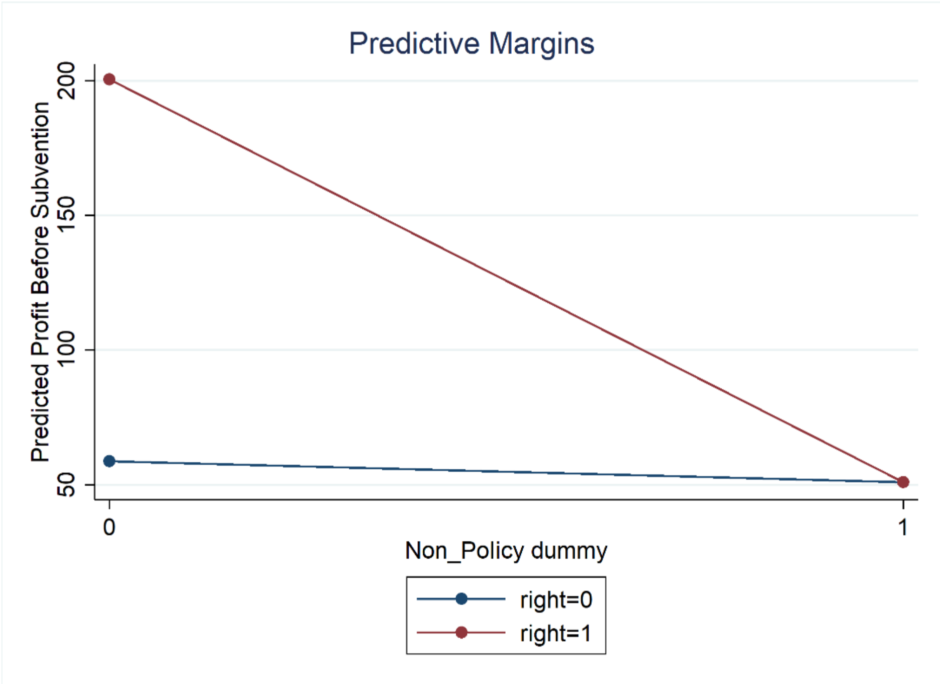
**Table 5:** FGLS Regression Results for the Alternative DVs

| | **DV = ROE** | | **DV = ROCC** | |
|---|---|---|---|---|
| | Model 1 | Model 2 | Model 3 | Model 4 |
| Political Ideology (scale) | 0.01*** | | 0.06*** | |
| | (0.00) | | (0.01) | |
| Right Leaning (dummy) | | 0.03* | | 0.26*** |
| | | (0.02) | | (0.04) |
| Non-Policy Party Behavior | 0.22*** | -0.00 | 0.72*** | 0.01 |
| | (0.05) | (0.01) | (0.08) | (0.01) |
| Political Ideology (scale) X Non-Policy Party Behavior | -0.03*** | | -0.12*** | |
| | (0.01) | | (0.01) | |
| Right Leaning (dummy) X Non-Policy Party Behavior | | -0.05*** | | -0.26*** |
| | | (0.02) | | (0.04) |
| Mixed SOE | -0.04*** | -0.03*** | -0.05*** | -0.06*** |
| | (0.01) | (0.01) | (0.01) | (0.01) |
| Listed SOE | 0.03* | 0.04** | 0.05 | -0.00 |
| | (0.02) | (0.01) | (0.06) | (0.06) |
| Equity | -0.00* | -0.00** | -0.00 | -0.00 |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Financially Independent SOE | -0.01* | -0.02** | 0.05*** | 0.05*** |
| | (0.01) | (0.01) | (0.01) | (0.01) |
| SOE in Termination | -0.00 | -0.00 | -0.08*** | -0.06*** |
| | (0.01) | (0.01) | (0.01) | (0.01) |
| Audit Committee | 0.05*** | 0.05*** | 0.13*** | 0.13*** |
| | (0.01) | (0.01) | (0.01) | (0.01) |
| Number of Employees | 0.00*** | 0.00*** | 0.00*** | 0.00*** |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Fiscal Situation | 0.01 | -0.03 | -0.06 | -0.31*** |
| | (0.06) | (0.06) | (0.08) | (0.08) |
| State Dependence on Federal Transfers | 0.02 | -0.01 | 0.02 | 0.02 |
| | (0.03) | (0.03) | (0.05) | (0.05) |
| State Human Development Index | 0.43*** | 0.49*** | -0.56*** | 0.02 |
| | (0.10) | (0.09) | (0.16) | (0.18) |
| State Population | -0.00*** | -0.00*** | -0.00*** | -0.00*** |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Constant | -0.29*** | -0.28*** | 0.35*** | 0.13 |
| | (0.06) | (0.06) | (0.11) | (0.13) |
| Observations | 897 | 897 | 538 | 538 |
| Number of Groups | 277 | 277 | 287 | 287 |

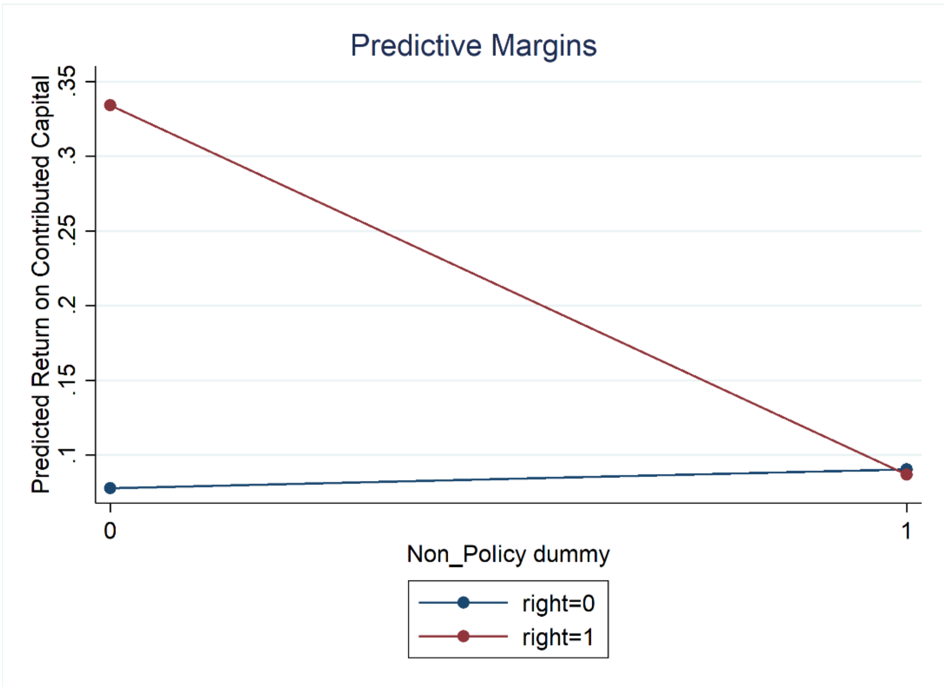
Standard errors in parentheses. All models are estimated with sector and year fixed effects.
The alternative DVs are winsorized at 5% at both tails.
*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

**Figure 2:** Simple and main effects

**Panel A**




**Panel B**



## 5. DISCUSSION AND CONCLUSIONS

This paper contributes to the burgeoning scholarship on the impact of political contingencies on the decisions and performance of public sector organizations (Alonso et al., 2022; Alonso & Andrews, 2020; Andrews, 2022; Menozzi et al., 2012; Tavares & Camões, 2010). This is a relevant topic because public organizations are typically designed to operate beyond political cycles. Successive governments with different executive branch compositions tend to exert distinct pressures on public organizations' performance over time according to their political ideologies, which may vary in terms of strengths and objectives. We address this topic by exploring how incumbents' political ideologies and parties' objectives shape SOEs' financial performance once they are created.

We hypothesized and empirically demonstrated that incumbents' political ideology is associated with SOEs' financial performance. Consistently with previous research, the results show that the more right-leaning the incumbent's political ideology, the greater the SOEs' financial performance (Aguilera et al., 2021). Conversely, the more left-leaning the incumbent's political ideology, the lower the SOE's financial performance. We also shed light on the role of an important political contingency that makes this association nonlinear: the incumbent's political ideology and SOEs' financial performance association is moderated by the incumbent's party's behavior. A right-leaning incumbent whose party's behavior is not policy driven may exert lower pressures on SOEs' financial performance than a similar right-leaning counterpart whose political party's predominant behavior is, instead, policy driven. The reason is that, while right-leaning ideologies may imply policy preferences linked to better financial performance in public organizations like SOEs, the impact is less perceptible when the incumbent's party displays non-policy goals (e.g., prioritizing maximization of votes or occupation of offices rather than policy outcomes).

Our findings altogether have important implications for theory and policy. We expand a long-standing stream of research about the financial performance of public organizations, such as SOEs (Aharoni, 1981; Ramamurti, 1987; Shleifer & Vishny, 1994; Vining et al., 2021), by suggesting that incumbents' political ideologies shape SOEs' financial performance. This finding constitutes a relevant advancement in extant scholarship that has neglected the effects of the incumbent's ideology on public sector organizations' financial performance during their life cycles, despite examining how political ideology is associated with public administration choices (e.g., contracting out, privatization and corporatization) (Alonso et al., 2022; Alonso & Andrews, 2020; Tavares & Camões, 2010).

Furthermore, grounded in a consolidated political science typology of political parties' goals and behaviors (Muller & Strom, 1999; Strom, 1990; Wolinetz, 2002), we shed light on a nonlinear pattern that had not been previously grasped in PA literature: an incumbent's political party's non-policy behavior moderates the association of the incumbent's ideology with SOEs' financial performance. This finding constitutes a possible explanation for the difficulty in reaching a consensus on whether and how political ideology shapes public organizations' decisions and performance (Andrews et al., 2020). Neglecting the importance of this political contingency—generally overlooked in current empirical studies that assume linear effects—may hinder the effects of political ideology on public administration outcomes.

Finally, given that extant research on corporatization and SOEs is almost exclusively based on European single-industry empirical settings (Alonso et al., 2022; Andrews et al., 2020; Berge & Torsteinsen, 2022; Da Cruz & Marques, 2012; Rackwitz & Raffer, 2024; Tavares & Camões, 2010), our research focuses on an emerging Latin American economy's context and includes SOEs on a multi-industry perspective.

Concerning policy implications, we highlight that the connection between political ideology and SOEs' performance may imply important consequences for the achievements of the public interests of SOEs, as well as for their financial sustainability. For example, the influence of a right-leaning ideology may be beneficial to an SOE's financial sustainability, while, at the same time may jeopardize the fulfillment of the very public interests that justify the existence of the SOE in certain situations. Conversely, the pressures from a left-leaning ideology may enhance the social achievements of an SOE but may simultaneously put the SOE's financial sustainability at risk in certain situations. Furthermore, when political behavior is not policy driven, the effects on SOEs' outcomes that derive from incumbents' political ideological may be blurred and more difficult to identify. In other words, our study corroborates the idea that SOEs are permeable to the influence of governments (OECD, 2017), and that political control exerted by incumbents may significantly impact their performance over their life cycle (Aharoni, 1981; Menozzi et al., 2012; Musacchio & Lazzarini, 2014). This may in turn emphasize the importance of institutional arrangements and policies aimed at strengthening both the pursuit of public interests and of SOEs' financial sustainability independently of incumbents' political ideology (OECD, 2022).

There are, nonetheless, some limitations in our study. Despite the considerable heterogeneity across subnational governments in our empirical setting, this study considers only a single country. Therefore, to enhance external validity, future studies should include cross-country samples, encompassing a greater diversity of environments where political ideology may operate in different ways. Additionally, our dataset contains ideology information only at the incumbents' level. Hence, future research should investigate the effects of ideology at the individual level, considering the potential role of executives and directors in SOEs' outcomes. Finally, our study only addresses performance in its financial dimension, without considering the effects of incumbents' ideology on social outcomes of SOEs. Thus, future research should address the multiple dimensions of SOEs' performance.

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