What Political Connections: Evidence from Thailand

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บทคัดย่อ

งานวิจัยนี้ได้ทำการศึกษาผลของความสัมพันธ์ทางการเมืองที่มีต่อผลการดำเนินงานของบริษัท
จดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทย ในช่วงปี ค.ศ. 1999-2008 ซึ่งได้รวมช่วงเวลาที่การเมืองไม่มี
เสถียรภาพ การศึกษาใช้คำนิยามของความสัมพันธ์ทางการเมืองหลายรูปแบบ อาทิ ตามความสัมพันธ์บริษัท
(โดยผู้ถือหุ้นหรือคณะกรรมการบริหาร) สถานะทางการเมือง (คณะรัฐมนตรีหรือสภาผู้แทนราษฎร) และความ
ใกล้ชิดของความสัมพันธ์ (โดยสายเลือด โดยการแต่งงาน เพื่อน หรือคู่ค้าทางธุรกิจ) การศึกษาทดสอบว่า
ความสัมพันธ์ทางการเมืองต่างๆ ดังกล่าวสร้างมูลค่าเพิ่มให้กับบริษัทได้หรือไม่ ผลการศึกษาพบว่ามีความ
สัมพันธ์เชิงบวกระหว่างความสัมพันธ์ทางการเมืองของคณะรัฐมนตรีกับผลการดำเนินงานที่วัดโดยปัจจัยตลาด
(market performance) หลังจากที่ควบคุมปัจจัยทางด้านบรรษัทภิบาลและความโปร่งใสแล้ว แต่ผลการ
ศึกษานี้ไม่อาจสรุปได้ชัดเจนกับผลประกอบการ (operating performance) ของบริษัท การศึกษายังพบว่า
ผลประโยชน์ที่ได้จากความสัมพันธ์ทางการเมืองไม่ได้เกิดเฉพาะในความสัมพันธ์โดยทางสายเลือด แต่ยัง
เกิดกับความสัมพันธ์โดยคู่สมรส (การแต่งงาน) รวมไปถึงความสัมพันธ์โดยเพื่อนและกลุ่มบริษัท และผล
ของความสัมพันธ์ดังที่กล่าวมาปรากฏอย่างชัดเจนในช่วงที่ พ.ต.ท.ทักษิณ เป็นนายกรัฐมนตรี นอกจากนั้น
งานวิจัยยังศึกษาการตอบสนองของตลาดที่มีต่อบริษัทจดทะเบียนเมื่อมีการเปลี่ยนแปลงอำนาจทางการเมือง
ในไทย โดยในช่วงการเกิดรัฐประหารเมื่อปี ค.ศ. 2006 ตลาดทุนมีการตอบสนองในเชิงลบต่อบริษัทที่มีความ
สัมพันธ์ทางการเมืองกับคณะรัฐมนตรีชุดเก่า (รัฐบาลที่โดนโค่นอำนาจ) และมีการตอบสนองในเชิงบวกต่อบริษัท
ที่มีความสัมพันธ์ทางการเมืองกับพรรคฝ่ายตรงข้ามรัฐบาล สำหรับการเลือกตั้งปี ค.ศ. 2007 ตลาดมีการ
ตอบสนองเชิงบวกต่อบริษัทที่มีความสัมพันธ์ทางการเมืองกับคณะรัฐมนตรีที่จะได้ตำแหน่ง (กลุ่มทางการเมือง
เดียวกับที่ลงจากอำนาจ) และตอบสนองในเชิงลบต่อบริษัทที่มีความสัมพันธ์ทางการเมืองกับพรรคฝ่ายค้าน
โดยสรุปแล้วผลการศึกษายืนยันแนวคิดที่ว่าความสัมพันธ์ทางการเมืองมีมูลค่าต่อบริษัทในตลาดทุนของประเทศ
ที่มีระบบกฎหมายและการคุ้มครองนักลงทุนที่อ่อนแอ

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Abstract

This study investigates the effects of political connections on the performances of the listed firms on the Stock Exchange of Thailand during 1999-2008, the period that includes recent political instability. Using various definitions of political connections based on how the connection is established (ownership or board of director), to which political status (cabinet or representative), and how strong is the tie (by blood, by marriage, or by friendship and business associates), we examine whether such connections add value to a firm. The results suggest that there are positive associations between political connections with the cabinet members and market performance after controlling for the corporate governance and opacity. The evidence is less conclusive with operating performance. It is also shown that the benefits from the connections are not solely from the connections by direct tie with family (by blood) but also from the connections with their spouses (by marriage), including their friends and conglomerates. Such effects of connections are more pronounced during the PM Thaksin's regime. In addition we investigate market reactions on the politically connected firms from the recent political power changes in Thailand. During the 2006 coup, market reacts negatively for firms connected with incumbent cabinet (the overthrown government) but positively for firms connected to opposition parties. Subsequently, during the 2007 national election market reacts positively for firms connected to the incoming cabinet (more or less the same political group that has fallen from power) but negatively for firms that connected to the incoming opposition parties. Overall our results confirm that political connections are valuable to a corporation in countries with a weak legal system and investor protection.

Keywords: Politics, Political connection, Corporate Governance, Thailand

JEL Classification:

1. Introduction

Firms with political connections are pervasive around the world[1]. The benefits of corporations with political connections can be in many forms such as preferential treatment in taxation, regulation, and completion for government contracts. Previous studies show that the political connections do add value to a firm. For example, Fisman (2001) shows that companies in Indonesia that are connected to the Suharto family lost value following several announcements regarding the deteriorating health of President Suharto. Faccio (2006) documents significant increase in corporate value when officers or large shareholders enter politics. Faccio, Masulis, and McConnell (2006) show that politically connected firms are more likely to be bailed out by the government. Desai and Olofsgard (2008) find that arrangements by which firms with close ties to incumbent political authorities receive favors is a pervasive feature of business-government relationship in countries around the world. Faccio and Parsley (2009) report that companies located in a politician's hometown decrease in value upon the announcement of the politician's unexpected death. Also recently Goldman et al. (2009) show that the political connections have a pervasive impact on the value of a company even in a well-developed market such as in the United States.

Although it has been shown that in general political connections are valuable to a firm, Thailand still provides an interest setting to investigate this issue due to its recent political development and instability after 2006. Bunkanwanicha and Wiwattanakantang (2009) and Imai (2006) find strong evidences of favors to the politically connected firms. However, the two studies focus largely on only the Thaksin' regime where the political influence is most prominent. It is interesting to investigate whether the political connections add value to such a firm in other regimes. Moreover, the recent abrupt changes in political power in Thailand provide us the unique opportunity to examine the short-run effects of the political connections.

The main objective of this study is to investigate the effects of political connections on the performances of the listed firms on the Stock Exchange of Thailand during 1999-2008. We select this period to be able to compare the effects of PM Thaksin and those of others and also to include the abrupt change in political power during the 2006 coup and the 2007

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[1] Faccio (2006) finds that corporations exist in 35 of the 47 countries in her sample and these connections are more common in countries that are perceived as being highly corrupt or in countries that impose restrictions on foreign investments and have a weak legal system.

national election in Thailand. We provide several measures of the connections since defining politically connectedness is an extremely complicated proposition as suggested by Fisman (2001). In particular, we develop various definitions of connections depending on how the connections is established (ownership or board of directors), to which political status (cabinet or representatives), and how strong the tie is (by blood, by marriage, or by friendship and business associates). In addition, it is plausible that these connected firms may choose the level of corporate governance or opacity so they can enjoy political benefits as suggested by Leuz and Oberhozer-Gee (2006) and Chaney, Faccio, and Parsley (2011). Hence, to examine the effects on firms' performance, we also control for the level of corporate governance and stock informativeness (opacity). Finally, it is also interesting to investigate the impacts of the connections during abrupt political changes.

The results in general suggest that political connections with the cabinet members positively affect their market performance (market to book ratio) while connections with representatives do not. The evidence is less conclusive with operating performance (returns on asset). It is shown that such benefits are not solely from the connections by direct tie with family or by blood but also from the connections with their spouses (by marriage), including their friends and conglomerates. Moreover, the effects of connections are more pronounced during the PM Thaksin's regime. The evidence is consistent with previous works such as Imai (2006) and Bunkanwanicha et al. (2009).

During the recent political instability the results show strong evidence of the short term impacts of the political connections. During the 2006 coup, market reacts negatively for firms connected with incumbent cabinet (the overthrown government) but positively for firms connected to opposition parties. Subsequently, during the 2007 national election market reacts positively for firms connected to the incoming cabinet (more or less the same political group that has fallen from power) but negatively for firms that are connected to the incoming opposition parties.

The study proceeds as follows. Section 2 discusses the sample and data description. Section 3 investigates the effects of political connections and firm performance. It also examines the short term effects on stock returns by conducting the event studies during the coup in 2006 and the national election in 2007. Conclusions and the implications of the results are given in Section 4.

2. Sample and data description

Total samples are all listed firms on the Stock Exchange of Thailand (SET) during 1999-2008. We exclude firms with incomplete data and those under restructuring (with negative equity). The resulting sample consists of 3,492 firms-years.

Data sources

Financial data in this study is from two major sources. The financial statement data is taken from the Stock Exchange of Thailand (SET) database SETSMART while returns on stocks, and SET index and risk free rates (1-month US. T-bill) are collected from Thompson Reuters' DATASTREAM. The major shareholders (0.5% or higher ownership) and board of directors are also from SETSMART. The data of the cabinet members (CAB) is obtained from the website of the secretariat of the cabinet. (www.cabinet.thaigov.go.th) while the data of representatives (REP) is collected from the parliament library and the website of the parliament (www.parliament.go.th). The relations among families and in-law are mainly from "A Unique Guide to Who Owns What" by The Brooker Group and "The Fifty-five Most Well-Known Families" by The Nation Multimedia Group, and other reported facts in Thai newspapers and presses.

Identification of politically connected firms

To establish the political connections is a rather difficult and subjective task since there are several aspects to be considered. For example what are the means of connection (ownership or board of directors)? How strong is the connection tie (family, in-law, friendship, or business partner)? What is the post of connected politicians (cabinet, government or opposition, incoming or outgoing, etc.)? Using data from the aforementioned sources, this study classifies political connections by two forms of connections (ownership and board of directors) and various levels of tie. **Direct connection** is a firm that is tied (through ownership or board of director) to politicians by the same surname (by blood or family). **Direct and in-law connection** is a firm that is tied to politicians (through ownership or board of directors) by the same surname or in-law relationship (by blood and by marriage). **Direct and indirect connection** is a firm that is tied to politicians (through ownership or board of director) by the same surname or in-law relationship or other links such as friendship or business partner. For example, to establish the connection through ownership, using the

major shareholders reported in the SETSMART, we check whether any person own shares up to the certain cut-off levels (0.5%, 10%, and 20%) has the same surname with politicians during that period. If so this firm has direct political connection. For weaker levels of tie we use several sources[2] to check whether any shareholder on the major list has in-law, friend, and business partner relationship with politicians. We then classify whether a firm has direct and in-law connection or direct and indirect connection accordingly. Moreover, in the case that the major shareholder is an institution, we also check for reported facts in presses whether the owner of the institution is related to politicians (for example, the case in point is Ample Rich is owned by Shinawattra family).

Table 1 reports the number of politically connected firms by types of connection (ownership or board representative), level of connections (direct, direct and in-law, or direct and indirect connections). Panel A reports the number politically connected firms by various percentage of ownership and number of board representatives. The panel also shows the number of firms connected to cabinet members and Member of Parliament (representative). For example, during the sample period there were 192 firms directly connected to cabinet members using 0.5% ownership cut off level while there were 62 firms and 55 firms using the 10% and 20% level, respectively. Panel B reports the distribution of number of politically connected firms over the sample period for those connected through ownership at 10% level and 2 board representatives. It shows that during the period of Thaksin's regime (2001-2005), there were more firms connected with politicians than the period of non-Thaksin's regime (1999-2000 and 2007-2008). The evidence is consistent with the argument by Chaiwat (2006) that there is more incentive for the business sectors to try running in the national office by, particularly, establishing the new-type relationship with the political groups, the relationship which he called "the relationship that lead by the business group and support by the political group."

Corporate governance index construction

The corporate governance index CGI is constructed as in Chokchaiusaha and Tirapat (2009) where the index is constructed from a set of questions classified into five governance components: 1) Board Structure 2) Conflict of Interests 3) Board Responsibilities

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[2] Main sources include "Thai Business Group: A Unique Guide to Who Owns What", 5th edition, 2003, by The Brooker Group, "The Fifty-five Most Well-Known Families", various year, by The Nation Multimedia Groups, and "The legends of the thirty most well-known families", 2006, by Animate Group.

4) Shareholder's Rights, and 5) Disclosure and Transparency. The index score is between 0 and 100, with the higher the value indicating better corporate governance. The information for each company is collected from publicly available sources including the mandatory Annual Disclosure Report (Form 56-1), company annual reports, corporate websites, the web-based SET Market Analysis and Reporting Tool (SETSMART), and the SET's Director Database, and Securities and Exchange Commission (SEC)'s database. Scores are given to each governance item and grouped into five categories to create sub indexes. The CGI is then computed as a composite index by taking a weighted average of the sub indexes.

Firm specific variation (idiosyncratic volatility)

Using Ferreira and Laux's (2007) approach, we use weekly returns to estimate the yearly idiosyncratic variation as a proxy for information flow. In particular, from the market model

$$R_{i,t} = \alpha_i + \beta_i . R_{m,t} + \varepsilon_{i,t} ,$$ (1)

with $E(\varepsilon_{i,t}) = COV(R_i \varepsilon_{i,t}) = 0$, $R_{i,t}$ is the excess return for stock i on week t, and $R_{m,t}$ is the value-weighted excess market index return on week t. Then $\beta_t = \dfrac{\sigma_{im}}{\sigma_m^2}$, where $\sigma_{im} = COV(R_{i,t} R_{m,t})$, $\sigma_m^2 = Var(R_{m,t})$ and $\sigma_i^2 = Var(R_{i,t})$. The idiosyncratic variance is defined as

$$\sigma_{i\varepsilon}^2 = \sigma_i^2 - \frac{\sigma_{im}^2}{\sigma_m^2} .$$ (2)

The relative idiosyncratic volatility (IDIO) is calculated as the log ratio of the idiosyncratic variance and the systematic (the portion explained by market) variance as

$$IDIO_{it} = \ln\left(\frac{\sigma_{i\varepsilon,t}^2}{\sigma_{i,t}^2 - \sigma_{i\varepsilon,t}^2}\right)$$ (3)

The descriptive statistics of the politically connected and their match firms are reported in **Table 2**. Panel A of the table reports those of the direct connection through ownership at 10% while those of the direct connection through 2 board representatives are shown in Panel B. Each panel reports firm characteristics such as market to book ratio (MTB), return of assets (ROA), return of equity (ROE), log of total asset (LNSIZE), firm's age in month (AGE), debt to equity ratio (LEVERAGE), and asset growth (GROWTH). The panel also reports

the corporate governance characteristics such as the corporate governance index (CGI) and its components of CGI (board structure, conflict of interest, board responsibility, shareholder right and disclosure and transparency), and the idiosyncratic volatility (IDIO). The matched firms are those that are closest in terms of industry and size. As shown in the Panel A, the cabinet connected firms (CAB) through ownership (direct connection at 10%) on average have higher market to book ratios (MTB) and tend to be larger in size (SIZE). In addition, the panel shows that the cabinet connected firms on average have better corporate governance index (CGI) and less idiosyncratic information (IDIO). In particular, these firms seem to have better board responsibility and shareholder rights. This evidence is inconsistent with the anecdotal belief in Thailand. However, for those connected with representatives (REP), their characteristics are not different from the matched firms. When we consider the politically connected firms through board of directors (direct connection at 2 board members), Panel B suggests that there is not much difference in characteristics between the politically connected firms and those of the matched firms.

3. The effects of political connections

This section investigates the impacts of political connection on market performance (using the market to book ratio) and operating performance (using return on assets). We then examine the market reactions of the politically connected firms during the recent coup in September 2006 and the national election in December 2007.

3.1 Political connection and firm's performances

To investigate the effects of the political connection, as a basis we perform the following regression analysis:

$$\text{Performance}_{i,t} = \alpha + \beta . \text{REP}_{i,t} + \beta . \text{CAB}_{i,t} + \sum_{k=1}^{n} \gamma_k . \text{Control}_{k,i,t} + \varepsilon_{i,t} , \qquad (4)$$

where $\text{REP}_{i,\,t}$, and are the dummy variables that take on a value of one (and 0 otherwise) if the firm is connected to a representative and a cabinet member, respectively. is measured by the market to book (MTB) and return on asset (ROA). denote the set control variables of firm i in the year t such as firms' size, leverage, asset turnover, and age. We also control for industries and whether a firm is a stated-own enterprise using dummy variables.

The results of the regressions under various specifications are reported in **Table 3**. Panel A examines the overall effects of the political connection by reporting the estimated coefficients for the whole sample period (during 1999 through 2008). Panel B presents the results during PM Thaksin's regimes (during 2001–2005) and others regimes. Moreover, since the definition of political connection is rather elusive we investigate the effects under alternative definitions in Panel C.

We first investigate the effects of the political connections during the whole sample period. **Panel A** reports both the effects of direct connections established through ownership (0.5%, 10%, and 20% cut off level) and board representation (1, 2, and 3 representatives). For the connection through ownership, the panel shows that there are positive associations between firms' performance and the cabinet connection (CAB). The coefficients are positive and significant for all ownership cut-off level and performance measures. Moreover, the coefficients are monotonically increasing as the levels of ownership increase for both market performance (MTB) and operating performance (ROA). For example, the coefficients of CAB are 0.225, 0.538, and 0.694 for the market to book (MTB) as the dependent variable for the cut-off level at 0.5%, 10%, and 20%, respectively. However, the results are not as strong using the connections through board of directors. The coefficients of CAB are positive but not significant for one board representative. The statistically significant and positive associations for both MTB and ROA are found only in the case of the cabinet connection with 3 or more board representatives. These coefficients are 1.335 and 0.05 for the MTB and ROA, respectively.

Next we investigate whether the effects of political connections are different during the PM Thaksin regime from others. Although Imai (2006) and Bunkanwanicha et al. (2009) show the benefits from the political connection during PM Thaksin regime, they do not investigate whether the benefits are more pronounced under PM Thaksin comparing with the others. **Panel B** shows the results of the same regression specifications as those in Panel A but we report only the coefficients of interest (CAB and REP). The PM Thaksin regime is 2001 to 2005 which exclude the last year of his term; the year of political instability triggering by the selling of most, if not all, shares Thaksin and his family held in Shin Corporation Public Co., Ltd. to Temasek, the sovereign fund of Singapore. The coefficients of CAB under PM Thaksin are all positive under both connections (ownership or board of director) and for both the MTB and ROA regressions. The coefficients are all statistically significant except for the ROA regression under the connection through board of director. However, the coefficients of CAB

under non-Thaksin regimes are significantly negative for the MTB regressions. The coefficients are positive for the ROA regressions but statistically significant only under ownership connection. For the coefficients of REP, they are negative and statistically significant in some of the cases which are consistent with the previous results shown in Panel A. Hence, the results of Panel B seem to suggest that the benefits of political connection are strong and more pronounced during the PM Thaksin regime than others.

In addition, we also examine whether the level of tie does matter in political connections. **Panel C** reports the effects of the connections on performance under looser ties of politicians. The direct and in-law connection includes direct ties and by marriage with politicians while the direct and indirect connection also includes ties with friends and known associates or business partners. For the effects on market performance (MTB), the coefficients of CAB are all positive and statistically significant regardless of definitions of connections. It should be noted that the effects become less important as the ties become looser. For example, the coefficient of CAB under direct connection through ownership at 10% cut-off level is 0.538 (Panel A) while those of under direct and in-law connection and direct and indirect connection are 0.419 and 0.311, respectively. The same conclusion can be drawn from connections established through the board of directors. The evidence is less conclusive for the effects on ROA. Moreover, there seem to be no benefits from connection through representatives in general since the coefficients are negative or not statistically significant, as we have seen from Panel A. The evidence shows that the benefits from political ties (who are in power as cabinets) are not solely from the connections by direct tie with family or by blood but also from the connections with their spouse, including their friends and conglomerates.

Political connection, governance, and firm specific information

It is possible that politically connected firms may have better levels of corporate governance since they are in the public limelight and tend to conform to "best practices". It is also likely that because these firms are closely followed by media and analysts they may have different levels of price informativeness or idiosyncratic variation. In this section, we further investigate the effects of the political connections and firm performance by controlling for governance and price informativesness using the corporate governance index (CGI) and relative idiosyncratic risk (IDIO).

Table 4 reports the effect of the political connections after controlling for the corporate governance and information flow. The results are consistent with those of previous results. There is a positive relation between cabinet connected firms with market and operating performance. The coefficients of cabinet connected firms (CAB) are positive and statistically significant for the connections established through ownership or board of director after controlling for the corporate governance measure. There is also positive association between market performance (MTB) and the corporate governance index (CGI), but not the operating performance (ROA). The results are consistent with those found in Gompers, et al. (2003) and Chokchaiusaha and Tirapat (2008) that in the Thai market the better governance firms earn better market performance. Moreover, the positive relation between the connections and performance still persist when we control for relative idiosyncratic volatility (IDIO) or stock price informativeness. We do not incorporate both variables in the regression since these two control variables are correlated. As suggested by Ferreira and Laux (2007) there is a strong negative relation between an index of a firm's corporate governance (measured by antitakeover provisions) and the idiosyncratic variation.

Overall this section provides the evidence indicating that there are positive associations between the cabinet connection and firm performance, especially the market performance. The effects seem to be higher with stronger levels of cut-offs for ownership holdings and board representatives. The positive associations are more pronounced during PM Thaksin regime than other regimes. In fact, for non-Thaksin regimes there are negative associations between the cabinet connections and the market performance. In addition, the effects become less important as the ties become looser (direct and indirect connections). Finally, the benefits of connections persist after controlling for corporate governance and stock price informativeness.

3.2 The event studies on the 2006 coup d'état and the 2007 national election

To investigate the short term effects of abruptly losing or attaining political connections, we conduct the event study analysis of the 19th September 2006 coup and the December national election in this section[3]. Table 5 reports the cumulative abnormal returns (adjusted by CAPM model) over -4 to +4 week during the September 2006 coup. In this table,

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[3] Due to the small sample of firms in the event study, the direct political connections in this section also include firms connected with the cabinet through both shareholding and board of director at 0.5% and 1 person cut-off respectively.

we investigate the market reactions of firms tied to politicians by three statuses: incumbent cabinet (PM Thaksin), opposition parties (Democrat and others), and incoming cabinet (PM Surayud). It also reports three levels of connections: direct, direct and in-law, and direct and indirect connections. The results show strong evidence of the short term impacts of the political connections. For firms connected with incumbent cabinet, their abnormal returns are all negative during the coup period, but only statistically significant during (-2, 0) and (0, 1) week of the coup. On the contrary, abnormal returns of firms connected to opposition parties are positive and statistically significant prior to the coup. There are no abnormal returns for firms connected to the incoming cabinet.

The cumulative abnormal returns during the December 2007 national election are reported in **Table 6.** We examine the market reactions of firms tied to politicians by three statuses: incoming cabinet (PM Samak and PM Somchai), incoming government coalition (Pheu Thai Party[4] and others), and incoming opposition party (Democrat Party), each with three levels of connections: direct, direct and in-law, and direct and indirect connections. The table shows that in general firms connected to the incoming cabinet earn abnormal returns four weeks before the election. It seems that the market has anticipated the outcome of the election. Firms that are connected to representatives in government coalition earn some positive abnormal returns but not statistically significant. For firms that are connected to the incoming opposition parties, the market reacts negatively during the two weeks before the election.

4. Conclusion

This study investigates whether political connections add value to the listed firms on the Stock Exchange of Thailand during 1999-2008. Although it has been shown that political connections are valuable to a firm both in countries with well-developed financial markets as well as in countries with a weak legal system, Thailand still provides an interest setting to investigate this issue due to its recent political instability. In addition, it is plausible that these connected firms may choose the level of corporate governance or opacity so they can enjoy political benefits as suggested by Leuz and Oberhozer-Gee (2006) and Chaney, Faccio, and

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[4] The party is founded when the People's Power Party (PPP), a successor party to former PM Thaksin Shinawatra's Thai Rak Thai (TRT), was dissolved.

Parsley (2011). Hence, to examine the effects on firms' performance, we also control for the level of corporate governance and stock informativeness. Since defining connections is quite elusive, in this study we examine the effects of connections using various definitions of connections depending on how the connections is established (ownership or board of director), to which political status (cabinet or representative), and how strong is the tie (by blood, by marriage, or by friendship and business associates).

The results in general suggest that political connections with the cabinet members positively affect their market performance while connections with representatives do not. The evidence is less conclusive with operating performance. It is also shown that the benefits from the connections are not solely from the connections by direct tie with family or by blood but also from the connections with their spouses, including their friends and conglomerates. The effects of connections are more pronounced during the PM Thaksin's regime. The evidence is consistent with previous works in Imai (2006) and Bunkanwanicha et al. (2009).

We also investigate market reactions on the politically connected firms during the recent political instability; namely the September coup in 2006 and the December national election in 2007. The results show strong evidence of the short term impacts of the political connections. During the 2006 coup, market reacts negatively for firms connected with incumbent cabinet (the overthrown government) but positively for firms connected to opposition parties. Subsequently, during the 2007 national election market reacts positively for firms connected to the incoming cabinet (more or less the same political group that has fallen from power) but negatively for firms that are connected to the incoming opposition parties.

Overall, the results of this study are consistent with the notion that political connections are valuable to a corporation in countries with a weak legal system and investor protection such as Thailand. The effects of political connections on firms' performance do vary across the government regimes. Moreover, the recent abrupt changes in government power show the importance of whom a firm connected to.

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Table 1: Sample of politically connected firms

This table reports observations of the sample classified by various definitions of the political connections. The sample firms are listed companies on the Stock Exchange of Thailand during 1999 to 2008. The political connections are mainly established through level of percent ownership and control by number of board of directors. We also distinguish the connections with cabinet members (CAB) and representatives (REP). Direct connection uses the same surname as criteria in establishing connection. Direct and in-law connection uses the same surname and in-law relation as the connection criteria. Direct and Indirect connection uses the same surname, in-law relation, and other relations such as friendships and business partners as the connection criteria.

Panel A: Numbers of politically connected firms by various definitions

Types of Connection	Direct Connection			Direct and In-law Connection			Direct and Indirect Connection		
Connection through ownership									
Cut-off level	0.5%	10%	20%	0.5%	10%	20%	0.5%	10%	20%
CAB	192	62	55	320	92	81	527	164	130
REP	956	173	82	1031	218	131	1051	366	262
Connection through control by board of directors									
Cut-off level	one	two	three	one	two	three	one	two	three
CAB	226	39	17	289	73	31	407	154	71
REP	796	261	109	927	375	188	1077	498	257

Panel B: Numbers of politically connected firms overtime

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1999-2008
Direct Connection through shareholding - 10% cut-off											
CAB	2	4	8	9	8	11	10	6	0	4	62
REP	9	9	23	25	20	23	25	24	1	14	173
Direct Connection through board of directors - 2 persons cut-off											
CAB	3	2	6	4	4	6	5	5	3	1	39
REP	18	12	37	40	44	43	23	20	3	21	261

Table 2: Sample Characteristics

This table reports summary statistics of the politically connected firms during 1999 to 2008. Panel A reports characteristics of politically connected firms through ownership while Panel B reports those of politically connected firms through control by board of directors. Each panel reports the average of performance variables such as market to book ratio (MTB), returns on assets (ROA), return on equity (ROE). Other firm characteristics include log of total asset (SIZE), firms' age in month (AGE), debt to equity (DE) ratio, and asset growth. The governance characteristics include the corporate governance index (CGI) and its components as measured by Chokchaiusaha and Tirapat (2009) and the idiosyncratic volatilities (IDIO) as measured by Ferreira and Laux (2007). The matched firms are those in the same industry with the closest size of assets.

Panel A: Politically connected firms through ownership (direct connection at 10%)

	CAB connected firms	REP connected firms	Matched CAB firms	Matched REP firms	CAB-Matched	REP-Matched
Firm Characteristics						
MTB	1.924 (0.268)	0.992 (0.047)	1.367 (0.069)	1.093 (0.043)	0.557** (0.228)	-0.101 (0.068)
ROA	0.049 (0.014)	0.026 (0.010)	0.029 (0.011)	0.041 (0.008)	0.021 (0.018)	-0.016 (0.013)
ROE	0.026 (0.063)	0.042 (0.022)	-0.790 (0.733)	0.107 (0.022)	0.815 (0.936)	-0.065* (0.034)
Size (log of total asset)	16.035 (0.205)	14.496 (0.090)	15.329 (0.142)	14.592 (0.073)	0.706*** (0.242)	-0.096 (0.120)
AGE	228.396 (16.036)	379.530 (12.466)	253.501 (13.260)	307.788 (9.308)	-25.105 (21.185)	71.742*** (15.679)
DE Ratio	65.104 (10.119)	65.337 (8.881)	59.310 (22.31)	89.081 (8.822)	5.793 (29.648)	-23.744* (13.747)
Asset Growth	0.073 (0.036)	0.063 (0.017)	0.066 (0.022)	0.069 (0.013)	0.007 (0.040)	-0.006 (0.021)
Corporate governance characteristics						
IDIO	0.935 (0.165)	3.224 (0.200)	1.970 (0.215)	3.219 (0.133)	-1.035*** (0.303)	0.006 (0.233)
CGI	0.565 (0.021)	0.469 (0.011)	0.499 (0.018)	0.465 (0.008)	0.066** (0.027)	0.004 (0.013)
- Board Structure	0.547 (0.029)	0.414 (0.018)	0.462 (0.025)	0.441 (0.013)	0.085** (0.039)	-0.027 (0.022)
- Conflict of Interest	0.480 (0.023)	0.408 (0.012)	0.450 (0.021)	0.384 (0.008)	0.031 (0.031)	0.024* (0.014)
- Board Responsibility	0.626 (0.032)	0.535 (0.017)	0.538 (0.021)	0.511 (0.012)	0.088** (0.036)	0.024 (0.021)
- Shareholder Rights	0.501 (0.024)	0.379 (0.015)	0.415 (0.021)	0.389 (0.012)	0.086*** (0.031)	-0.010 (0.020)
- Disclosure and Transparency	0.642 (0.027)	0.558 (0.016)	0.581 (0.025)	0.559 (0.012)	0.060 (0.038)	-0.000 (0.020)

Panel B: Characteristics of politically connected firms through board of directors (direct connection at 2 board representatives)

	CAB	REP	Matched CAB	Matched REP	CAB-Matched	REP-Matched
Firm characteristics						
TOBIN'S Q	1.800	1.150	1.441	1.248	0.359	-0.097
	(0.301)	(0.055)	(0.114)	(0.049)	(0.269)	(0.077)
ROA	0.051	0.001	0.029	0.058	0.0215	-0.057**
	(0.017)	(0.021)	(0.014)	(0.016)	(0.022)	(0.026)
ROE	0.067	-0.134	0.003	0.057	0.064	-0.191
	(0.030)	(0.174)	(0.056)	(0.029)	(0.080)	(0.139)
Size	15.081	15.266	15.089	15.132	-0.008	0.134
	(0.284)	(0.098)	(0.189)	(0.0702)	(0.333)	(0.118)
AGE	271.547	353.615	281.420	291.649	-9.873	61.965***
	(22.855)	(14.173)	(15.181)	(8.385)	(26.818)	(15.419)
DE Ratio	69.488	77.922	94.955	92.426	-25.467	-14.504
	(23.025)	(7.756)	(13.753)	(6.899)	(25.226)	(10.865)
Asset Growth	0.063	0.351	0.091	0.096	-0.0275	0.255
	(0.038)	(0.249)	(0.026)	(0.013)	(0.045)	(0.191)
Corporate governance characteristics						
IDIO	1.799	2.573	2.382	2.721	-0.583	-0.149
	(0.223)	(0.162)	(0.245)	(0.103)	(0.378)	(0.183)
CGI	0.523	0.475	0.484	0.472	0.039	0.003
	(0.026)	(0.009)	(0.022)	(0.007)	(0.035)	(0.012)
- Board Structure	0.554	0.397	0.470	0.444	0.083	-0.047***
	(0.041)	(0.014)	(0.034)	(0.011)	(0.055)	(0.018)
- Conflict of Interest	0.411	0.445	0.418	0.399	-0.006	0.046***
	(0.028)	(0.011)	(0.023)	(0.008)	(0.037)	(0.013)
- Board Responsiblility	0.538	0.514	0.528	0.518	0.009	-0.004
	(0.036)	(0.014)	(0.028)	(0.011)	(0.047)	(0.018)
- Shareholder Rights	0.473	0.413	0.371	0.405	0.103**	0.008
	(0.031)	(0.013)	(0.025)	(0.010)	(0.041)	(0.017)
- Disclosure and Transparency	0.618	0.563	0.573	0.559	0.0451	0.003
	(0.0357)	(0.015)	(0.028)	(0.011)	(0.046)	(0.018)

Table 3: Political connections and performance

The table reports the regression estimates of firm's performance on the political connection variables and controls. The performance variables are market to book (MTB) ratio and return on assets (ROA). Controls measured at year t-1 include *Size* (natural log of total asset), Revenue/Total Asset, DE Ratio (divided by 1000 to reduce the decimal points of coefficients), and Ln(Age in Month). Industry follows the Stock Exchange of Thailand (SET) classification. State-owned enterprise equals to 1 if 20% or more shares of the firm are held by government who is also the biggest shareholder for the year. CAB is a dummy variable and equal to 1 if the firm is connected with cabinet members, 0 otherwise. REP is a dummy variable and equal to 1 if the firm is connected with representatives, 0 otherwise. Panel A reports the results of the direct connection through ownership while Panel B reports those of the direct connection through board of directors. Panel C and D use the same regression specifications but report only the coefficients of the political connection variables. Panel C reports the results of the connections and performance during different regimes (PM Thaksin and Non-Thaksin regimes) while Panel D reports the results of the connections and performance using various definitions of the connections. *, **, and *** indicate significance at the 10%, 5% and 1% level, respectively (standard errors are given in the parentheses).

Panel A: Political connections and firm performance during the whole period (1999–2008)

Political direct connection established through ownership

	0.5% holding		10% holding		20% holding	
	MTB	ROA	MTB	ROA	MTB	ROA
CAB	0.225***	0.023**	0.538***	0.037**	0.694***	0.040**
	(0.067)	(0.011)	(0.204)	(0.017)	(0.239)	(0.02)
REP	-0.058***	0.025	-0.063*	-0.013	-0.019	-0.023
	(0.017)	(0.020)	(0.032)	(0.018)	(0.042)	(0.016)
Size	0.027	0.001	0.021	0.000	0.021	0.000
	(0.021)	(0.010)	(0.024)	(0.010)	(0.024)	(0.010)
Revenue/Total Assets	0.067***	0.037***	0.073***	0.037***	0.075***	0.037***
	(0.017)	(0.012)	(0.019)	(0.012)	(0.02)	(0.012)
DE Ratio	0.001	-0.002***	0.000	-0.002***	0.000	-0.002***
	(0.002)	(0.000)	(0.000)	(0.000)	(0.001)	(0.000)
Ln(Age in month)	-0.103***	0.001	-0.101***	0.003	-0.101***	0.003
	(0.026)	(0.006)	(0.024)	(0.005)	(0.025)	(0.005)
State-owned Enterprise	-0.005	0.036	0.018	0.018	0.020	0.037
	(0.052)	(0.028)	(0.06)	(0.028)	(0.06)	(0.028)
Industry-Year Dummies	YES	YES	YES	YES	YES	YES
R^2	15.82%	2.24%	16.07%	2.19%	16.41%	2.19%
Observation	3074	3492	3074	3492	3074	3492

Political direct connection established through board of director

	1 board Representative		2 board Representatives		3 board Representatives	
	MTB	ROA	MTB	ROA	MTB	ROA
CAB	0.052 (0.04)	0.000 (0.024)	0.339** (0.143)	0.018 (0.013)	1.335*** (0.356)	0.05** (0.021)
REP	0.013 (0.039)	-0.033** (0.013)	-0.038 (0.049)	-0.023*** (0.007)	-0.138 (0.085)	-0.004 (0.008)
Size	0.028 (0.02)	0.001 (0.01)	0.029 (0.02)	0.001 (0.01)	0.026 (0.02)	0.001 (0.01)
Revenue/Total Assets	0.067*** (0.016)	0.036*** (0.012)	0.064*** (0.015)	0.036*** (0.012)	0.065*** (0.016)	0.036*** (0.012)
DE Ratio	0.002 (0.002)	-0.002*** (0.000)	0.002 (0.002)	-0.002*** (0.000)	0.002 (0.002)	-0.002*** (0.000)
Ln(Age in month)	-0.107*** (0.027)	0.005 (0.005)	-0.104*** (0.028)	0.004 (0.005)	-0.103*** (0.028)	0.003 (0.005)
State-owned Enterprise	-0.016 (0.052)	0.034 (0.028)	-0.024 (0.054)	0.033 (0.026)	-0.013 (0.05)	0.034 (0.027)
Industry-Year Dummies	YES	YES	YES	YES	YES	YES
R^2	15.30%	2.27%	16.07%	2.19%	16.82%	2.18%
Observation	3074	3492	3074	3492	3074	3492

Panel B: Political connections and firm performance during different regimes

		Direct connection through Ownership (10% cut-off)		Direct connection through board (2 representatives)	
		MTB	ROA	MTB	ROA
PM Thaksin's Regime (during 2001-2005)	CAB	0.885*** (0.233)	0.063** (0.026)	0.557*** (0.137)	0.008 (0.023)
	REP	-0.090*** (0.028)	-0.020 (0.027)	-0.034 (0.068)	-0.032*** (0.005)
	R^2	21.95%	2.10%	20.01%	2.09%
	Observations	1556	1820	1556	1820
Non-Thaksin Regime (during 1999-2000 and 2007-2008)	CAB	-0.195*** (0.45)	0.052** (0.025)	-0.215*** (0.078)	0.007 (0.03)
	REP	-0.095*** (0.019)	0.020 (0.013)	-0.117 (0.092)	0.012 (0.009)
	R^2	13.31%	7.60%	13.37%	7.58%
	Observations	1140	1255	1140	1255

Panel C: Political connections and firm performance using alternative connection definitions

	Connection through Ownership (10% cut-off)				Connection through board (2 representatives)			
	Direct and In-law Connection		Direct and Indirect Connection		Direct and In-law Connection		Direct and Indirect Connection	
	MTB	ROA	MTB	ROA	MTB	ROA	MTB	ROA
CAB	0.419***	0.014	0.311***	0.020	0.205**	0.022*	0.108*	0.012**
	(0.15)	(0.011)	(0.091)	(0.014)	(0.097)	(0.013)	(0.065)	(0.005)
REP	-0.093***	-0.004	-0.014	-0.018	-0.046	-0.012	-0.069**	-0.033*
	(0.028)	(0.013)	(0.028)	(0.017)	(0.033)	(0.011)	(0.027)	(0.017)
R^2	16.00%	2.18%	15.88%	2.20%	15.44%	2.19%	15.45%	2.24%
Observation	3074	3492	3074	3492	3074	3492	3074	3492

Table 4: Corporate governance, political connections, and performance

The table reports the regression estimates of firm's performance on the political connection variables, controlling for corporate governance and opacity. The performance variables are market to book (MTB) ratio and return on assets (ROA). The corporate governance index (CGI) is constructed as in Chokchaiusaha and Tirapat (2009) and the opacity measured by relative idiosyncratic volatilities (IDIO) as in Ferreira and Laux (2007). Controls measured at year t-1 include Size (natural log of total asset), Revenue/ Total Asset, DE Ratio (divided by 1000 to reduce the decimal points of coefficients), and Ln (Age in Month). Industry follows the Stock Exchange of Thailand (SET) classification. State-owned enterprise equals to 1 if 20% or more shares of the firm are held by government who is also the biggest shareholder for the year. CAB is a dummy variable and equal to 1 if the firm is connected with cabinet members, 0 otherwise. REP is a dummy variable and equal to 1 if the firm is connected with representatives, 0 otherwise. The connection is identified using the direct connection. *, **, and *** indicate significance at the 10%, 5% and 1% level, respectively (standard errors are given in the parentheses).

	Direct connection through ownership (10% cut-off)				Direct connection through board of directors (2 representatives)			
	MTB	ROA	MTB	ROA	MTB	ROA	MTB	ROA
CAB	0.544***	0.067***	0.645***	0.065***	0.751***	0.056**	0.738***	0.055**
	(0.126)	(0.017)	(0.094)	(0.017)	(0.219)	(0.025)	(0.213)	(0.024)
CGI	0.295***	0.086			0.305***	0.089		
	(0.056)	(0.061)			(0.063)	(0.06)		
IDIO	-0.026***	-0.006***	-0.026***	-0.006***	-0.026***	-0.006***	-0.026***	-0.006***
	(0.01)	(0.002)	(0.01)	(0.002)	(0.009)	(0.002)	(0.009)	(0.002)
Size	0.016	-0.010	0.004	-0.012	0.023	-0.009	0.012	-0.011
	(0.021)	(0.013)	(0.025)	(0.013)	(0.02)	(0.013)	(0.023)	(0.013)
Revenue/Total Assets	0.108***	0.022	0.11***	0.023	0.094***	0.02	0.095***	0.022
	(0.02)	(0.015)	(0.018)	(0.014)	(0.015)	(0.015)	(0.014)	(0.014)
DE Ratio	-0.004	-0.002***	-0.001	-0.002***	-0.002	-0.002***	0.001	-0.002***
	(0.012)	(0.000)	(0.012)	(0.000)	(0.01)	(0.000)	(0.01)	(0.000)
ln(Age in month)	-0.085***	0.015**	-0.063***	0.015**	-0.088***	0.014**	-0.066***	0.014**
	(0.01)	(0.006)	(0.01)	(0.006)	(0.01)	(0.006)	(0.013)	(0.006)
State-owned Enterprise	0.027	0.055	0.031	0.060	-0.046	0.048	-0.043	0.054
	(0.075)	(0.043)	(0.079)	(0.038)	(0.076)	(0.043)	(0.078)	(0.037)
Industry Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Year Dummy	YES	YES	YES	YES	YES	YES	YES	YES
R^2	21.46%	1.92%	18.77%	1.96%	21.71%	1.90%	18.64%	1.94%
Observations	2402	2582	2474	2667	2402	2582	2474	2667

Table 5: Abnormal returns of politically connected firms during the September 2006 coup d'état

This table reports the cumulative weekly abnormal returns of politically connected firms around the event of the coup d'état, 19 September 2006 (the week of 18th–22th September is the event date). Incumbent cabinet connected firms are firms that connected with PM Thaksin's cabinets. Opposition party connected firms are firms connected to opposition party during Thaksin's government (mainly the democrat party and small others). Incoming cabinet connected firms are those connected to the cabinets of PM Surayud Chulanont (who was appointed by the Council of National Security after the coup). Note that there are no indirect connection firms for the incoming cabinet. The connection is established either through ownership (10% cutoff) or board of directors (2 representatives) or 0.5% ownership and 1 board representative. Abnormal returns are adjusted by the CAPM model which their coefficients used are estimated from weekly returns in 2004 to 2006 (t-value are given in the parentheses). *, **, and *** indicate significant differences from zero at the 10%, 5% and 1% level, respectively.

	Weekly Cumulative Abnormal Returns					
	(-4,4)	(-2,2)	(-2,1)	(-2,0)	(0,1)	(0,4)
Incumbent cabinet connected firms						
Direct Connection	-5.66 (1.52)	-3.25 (0.84)	-3.3 (1.13)	-9.67** (2.36)	-6.18* (1.87)	-5.45 (1.26)
Direct and In-law Connection	-5.76* (2.06)	-4.35 (1.33)	-5.06* (1.8)	-10.93** (2.7)	-7.06** (2.44)	-5.29* (1.82)
Direct and Indirect Connection	-5.04** (2.08)	-4.57* (1.95)	-5.38** (2.37)	-10.47*** (3.27)	-6.53*** (2.85)	-5.54** (2.56)
Opposition party connected firms						
Direct Connection	4.18** (2.29)	3.82*** (3.46)	2.31* (1.92)	2.38* (1.84)	-1.91** (2.26)	0.17 (0.13)
Direct and In-law Connection	4.52** (2.64)	3.64*** (3.32)	2.44** (2.17)	2.3* (1.98)	-1.32 (1.59)	0.72 (0.55)
Direct and Indirect Connection	1.89 (0.86)	0.54 (0.37)	-0.65 (0.44)	-0.35 (0.24)	-1.84*** (2.69)	-0.62 (0.45)
Incoming cabinet connected firms						
Direct Connection	-4.7 (1.42)	-0.87 (0.52)	-2.46 (0.78)	-1.84 (0.7)	-2.2 (1.02)	-3.26 (1.17)
Direct and In-law Connection	0.98 (0.44)	-1.00 (0.76)	-1.56 (0.88)	-1.01 (0.62)	-1.55 (1.4)	-0.74 (0.55)

Table 6: Abnormal returns of politicallyconnected firms during the national election on December 2007

This table reports the cumulative weekly abnormal returns of politically connected firms around the event of the national election, 23 December 2007 (the week of 24th – 28th December is the event date). Incoming cabinet connected firms are those firms connected to cabinets of PM Samak Sundaravej and PM Somchai Wongsawat from Pheu Thai Party (former Thai Rak Thai party). Incoming government coalition connected firms are those associated with representatives in Pheu Thai coalition. Incoming opposition parties connected firms are those associated with representatives in opposition parties during PM Samak Sundaravej and PM Somchai Wongsawat. The connection is established either through ownership (10% cutoff) or board of directors (2 representatives) or 0.5% ownership and 1 board representative. Abnormal returns are adjusted by the CAPM model (t-value are given in the parentheses). *, **, and *** indicate significant differences from zero at the 10%, 5% and 1% level, respectively.

	Weekly Cumulative Abnormal Returns					
	(-4,4)	(-2,2)	(-2,1)	(-2,0)	(0,1)	(0,4)
Incoming cabinet connected firms						
Direct Connection	21.3* (2.31)	16.86* (2.21)	13.7* (2.08)	9.80* (1.98)	9.00 (1.69)	16.09 (1.71)
Direct and In-law Connection	18.32* (2.15)	14.42* (2.04)	12.06* (2.03)	8.58* (1.93)	7.85 (1.65)	12.44 (1.39)
Direct and Indirect Connection	6.3* (1.75)	6.68** (2.42)	5.97** (2.49)	3.04 (1.65)	4.88** (2.54)	5.19 (1.53)
Incoming government coalition connected firms						
Direct Connection	5.81 (1.11)	3.85 (1.72)	2.73 (0.99)	1.92 (0.93)	1.73 (1.23)	4.34 (1.4)
Direct and In-law Connection	3.25 (0.83)	4.74* (2.04)	4.91** (2.22)	2.10 (1.31)	4.05** (2.77)	1.79 (0.74)
Direct and Indirect Connection	1.96 (0.51)	4.10* (1.81)	4.47* (2)	1.92 (1.19)	4.38*** (3.16)	1.83 (0.8)
Incoming opposition parties connected firms						
Direct Connection	0.92 (0.58)	1.91 (1.25)	0.00 (0)	-1.58* (2.02)	0.57 (0.6)	1.66 (1.32)
Direct and In-law Connection	0.13 (0.08)	1.60 (1.25)	0.10 (0.1)	-1.3* (1.76)	0.39 (0.49)	1.07 (0.98)
Direct and Indirect Connection	-1.46 (0.77)	1.06 (0.9)	-0.27 (0.30)	-1.76** (2.29)	0.06 (0.10)	0.04 (0.05)

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