SUTHIPARITHAT
1

ผลกระทบทางการเมืองที่มีต่อผลประกอบการของบริษัทในประเทศไทย
The Impact of Political Revolution on Firm Performance in Thailand

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บทคัดย่อ

งานวิจัยนี้ได้ทำการศึกษาผลกระทบของความสัมพันธ์ทางการเมืองภายใต้ลักษณะ
ของการถือหุ้นแบบกระจุกตัว บริษัทของครอบครัว และการบังคับใช้กฎหมายที่ยังไม่ค่อย
เข้มงวดในประเทศไทย โดยใช้การวิเคราะห์จากกลุ่มตัวอย่างขนาดใหญ่ตั้งแต่ปี 2541 ถึง
2550 ซึ่งแบ่งเป็น 3 ช่วงเวลา ได้แก่ ก่อนการเลือกตั้ง (2541-2543) การแต่งตั้ง ดร.ทักษิณ
ชินวัตร เป็นนายกรัฐมนตรี (2544-2547) และช่วงตกต่ำทางการเมืองถึงเหตุการณ์ปฏิวัติ
(2548-2550) ในงานวิจัยนี้ได้ให้คำจำกัดความของบริษัทที่มีความสัมพันธ์ทางการเมืองว่า
เป็นบริษัทที่มีสมาชิกในครอบครัวของนายกรัฐมนตรีทักษิณ ชินวัตร สมาชิกในครอบครัว
ของรัฐมนตรีในรัฐบาลนายกรัฐมนตรีทักษิณ ชินวัตรระหว่างปี 2544-2547 สมาชิกใน
ครอบครัวของสมาชิกพรรคไทยรักไทย หรือสมาชิกในครอบครัวของผู้บริจาคเงินให้พรรค
ไทยรักไทย เป็นผู้ถือหุ้นรายใหญ่ของบริษัท ผลวิจัยได้แสดงว่าอัตราส่วนกำไรต่อสินทรัพย์ที่
ปรับค่าเฉลี่ยอุตสาหกรรมระหว่างบริษัทที่มีความสัมพันธ์ทางการเมืองและไม่มีความสัมพันธ์
ทางการเมืองมีความแตกต่างกันระหว่างปี 2547 (ปีรุ่งเรืองของรัฐบาลนายกรัฐมนตรี ทักษิณ
ชินวัตร) และปี 2550 (หลังปีเหตุการณ์ปฏิวัติ) และบริษัทที่มีความสัมพันธ์ทางการเมืองมี
อัตราผลตอบแทนที่เกินปกติสะสมกันน้อยกว่าบริษัทที่ไม่มีความสัมพันธ์ทางการเมืองในปีที่
เกิดเหตุการณ์ปฏิวัติ 2549 ผลวิจัยดังกล่าวตีความได้ว่า ความสัมพันธ์ทางการเมืองมี
ความสำคัญต่อผลประกอบการของบริษัท และ ถ้าบริษัทต้องสูญเสียความสัมพันธ์ทาง
การเมืองจะทำให้ผลประกอบการของบริษัทนั้นลดลง

Abstract

This research investigates the impact of political connections in the context of concentrated ownership, family firms and weak law enforcement in Thailand. Using a large-sample analysis, the presence of political connections is investigated from 1998 to 2007, classified into the pre-election (1998-2000), appointment period of Thaksin as Prime Minister (2001-2004), decline-coup (2005-2007) periods. Political connections are defined by family ownership of the former Prime Minister Thaksin Shinawatra, of ministers in the Thaksin's government in a period of 2001-2004, of the Thai Rak Thai Party's members and of the Thai Rak Thai Party's financial donators. The results show that the industry adjusted return on assets between connected and non-connected firms are different between 2004 (the rising year of the Thaksin's government) and 2007 (after the military coup event). Connected firms have lower market-adjusted cumulative abnormal returns (CARs) than non-connected firms in the military coup year of 2006. The findings imply that the presence of political connections is significant and the performance of connected firms decreases as a result of the loss of political connections.

Introduction

Previous evidence shows that political connections are prevalent around the world (Faccio, 2006). Investors perceive the existence of political connections as a major mechanism of firms and firms that are connected to key politicians in the country are valuable (Fisman, 2001; Johnson and Mitton, 2003). Political connections facilitate firms to obtain bank financing (Dinc, 2005; Khwaja and Mian, 2005) and help firms to sustain their businesses in the competitive environment (Ghemawat and Khanna, 1998; Hellman, Jones and Kaufmann, 2003). In particular, wealthy families are likely to develop connections with the government in order to obtain benefits for their businesses (Bunkanwanich and Wiwattanakantang, 2008).

In this research, connections are defined as the relationship between firms and the government in the context of family firms. I use non-financial firms listed on the Stock Exchange of Thailand between 1998 and 2007. Firms that are owned by country leaders' families are not uncommon.[1] The government of Thaksin Shinawatra demonstrates the involvement of business owners in politics. Companies that were owned by families of Prime Minister and ministers are believed to be closely connected to the government. Major events of Thai politics in the last decade, e.g. the appointment of Thaksin as Prime Minister in 2001 and the military coup in 2006, characterise the gain and loss of political connections.

This research will provide additional evidence of the presence of connections and the impact of political connections on firm performance in an emerging market. It will complement the results of Bunkanwanich and Wiwattanakantang (2008), who use a quantitative large-sample approach to examine political connections in the sample period 2001-2004 in Thailand (Bunkanwanich and Wiwattanakantang, 2008). In addition, it will complement findings of Fisman (2001) and Johnson and Mitton (2003), who investigated the significance of political connections using an event study in Indonesia and Malaysia, respectively.

Previous research investigates the significance of political connections, focusing only on the rising period of the Thaksin

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[1]Examples are family firms of Silvio Berlusconi (the Prime Minister of Italy), Suharto (the President of Indonesia), Ferdinand Marcos (the President of the Philippines), and Thaksin Shinawatra (the Prime Minister of Thailand).

Shinawatra's government (Tangkitvanich, 2004; Bunkanwanich and Wiwattanakantang, 2008). There is no empirical evidence to demonstrate the impact of such connections on the performance of politically-connected firms during the declining period of the Thaksin Shinawatra's government and after the coup. The Thai political revolution in 2006 will evidently show the effect of connections on firm performance because it is most likely that closely-connected firms will be most affected by this event.

In addition, evidence of corruption and regulation amendment of the Thaksin's government demonstrates the negative results of political connections. The findings will shed some lights about characteristics of cronyism, unfair competition and inefficient allocation of resources. This research will provide evidence to policy makers in order to enact stricter regulation to prevent potential conflicts of interest.

Background and literature survey

The presence and impact of political connections provide a better understanding of crony capitalism. Literature on political connections is growing in the finance and economics research area. Political connections have been

found in firms around the world (Faccio, 2006). Previous empirical research investigates whether political connections matter and are valuable at firm level in emerging markets such as India, Indonesia, Malaysia and South Korea (e.g. Ghemawat and Khanna, 1998; Fisman, 2001; Johnson and Mitton, 2003; Siegel, 2005).

Fisman (2001) uses Indonesian firms to investigate whether or not political connections are significant and measures stock price reactions to news of the President's health. He finds that the returns of firms that are dependent on political connections significantly drop following the negative news about the President's health. In addition, using firms in Malaysia, Johnson and Mitton (2003) investigate the impact of political connections on the stock performance of Malaysian firms that are connected to the Prime Minister Mahathir. They find that the stock returns of firms with political connections significantly declined in the early period of the crisis but, after the government announced the imposition of capital controls, the stocks of these firms experienced a higher return.

Furthermore, political connections have been investigated by Ghemawat and Khanna (1998), who conduct a case study of the two largest Indian business groups, R.P. Goenka

Enterprises and Ballarpur Industries Limited, to provide evidence about the impact of political connections on business opportunities in India. Ghemawat and Khanna argue that in a country where the government plays a key role in distributing rents, connections with the government help firms to survive in the market by securing new business opportunities.

In Thailand, political connections are also widespread, especially between wealthy families and the government (Bunkanwanich and Wiwattanakantang, 2008). The authors find that the higher the revenue from the government concessions, the higher the likelihood of the owners of family business groups entering into the politics. The market-adjusted cumulative abnormal returns of firms that belong to tycoons-cum-leaders (TCLs) are significantly larger than those of non-TCL firms during the event periods (i.e. the announcements of a new law, a government concession fee cut and a tax exemption affecting telecommunications firms). Tangkitvanich (2004) also documents similar findings. Using listed firms in Thailand, he finds that firms that are owned by Prime Minister Thaksin Shinawatra's family perform much better than other firms in the stock market in 2003.

Research questions and hypotheses

Major political events in the 2000s provide an opportunity to study the impact of connections in different political conditions. The political conditions are classified into the pre-election (1998-2000), appointment of Thaksin as Prime Minister (2001-2004), and declining and the coup (2005-2007) periods.

Research question 1: Do political connections affect firm performance?

Most Thai firms are owned and controlled by family shareholders. The controlling family shareholders of firms play a key role in developing connections with the government. It is obvious that family owners are involved in politics in the Thaksin's government. Family firms of Prime Minister and of several ministers seem to obtain higher benefits, e.g. government contracts, privileges and favourable policies, compared to non-connected firms. As a result, firms with political connections may have better performance than non-connected firms in the appointment period of Thaksin as Prime Minister (2001-2004).

H1 (1): The performance is higher for connected firms than for non-connected firms.

As a result of the decline of political power of the Thaksin's government, advantages that connected firms had benefited from are unlikely to continue in the declining and coup period, and it is interesting to investigate whether this possibility is actually a reality. I also use the same alternative hypotheses in research question (1) to examine the impact of political connections on firm performance in the Pre-election (1998-2001) and decline-coup (2005-2007) periods.

Research question 2: Are the performance different between connected and non-connected firms as a result of the gain and loss of connections?

The Prime Minister appointment of Thaksin Shinawatra in 2001 demonstrates the gain of political connections to family firms of Thaksin and ministers in his government. Firms that are connected with these politicians may have higher performance, compared to firms without political connections, after the gain of political connections. As a result of the military coup, it seems that benefits that connected firms had obtained may not be maintained. It is possible that the performance is lower for firms that lost connections than for non-connected firms. Therefore, it is interesting to investigate whether

the difference in performance between connected and non-connected firms are significant between different political situations.

H1 (2): The performance is higher in connected firms, compared to non-connected firms, after the gain of political connections.

In addition, it is interesting to look at what happened after the loss of connections. I expect that the performance is lower for connected firms than for non-connected firms in the declining and coup period, using the same hypotheses in research question (2).

Data

The sample comprises 1,893 firm-year observations of non-financial firms listed on the Stock Exchange of Thailand (SET). The sample period spans the political revolution in 2006 in Thailand, covering the years between 1998 and 2007, and indicates the gain and loss of political connections of the former Prime Minister Thaksin Shinawatra.

The financial data are collected from the Worldscope database, which compiles company information of Thai firms from the Stock Exchange of Thailand. In addition, the stock return index for each sample firm is collected from Datastream to calculate market-based

performance (returns on individual stocks). The stock return index of Datastream represents a growth of investment in the total value of a stock, assuming that dividends are re-invested to purchase new units of the stock at the closing price end of day. Using the return index from Datastream, the total returns for individual stocks are calculated as the total returns i.e. capital gain and dividend yield.

I will classify sample firms into two groups: firms with and without political connections. The role of family owners in developing connections with external institutions to obtain benefits for their family firms is of main interest. Family business groups are long-established institutions in Thailand (Phipatseritham and Yoshihara, 1983; Suehiro, 1989). They are entities that demonstrate a family's or a group of related families' wealth. Suppose that as a result of high ownership incentives, a large family shareholder has an objective to sustain the family firm for his family succession and wealth. The large shareholder may become an agent of the firm's shareholders to form connections with the government in order to gain privileges, business

opportunities and/or protections because those benefits likely increase competitive advantages and results in higher performance.

In the period of 2001-2004 (the appointment of Thaksin as Prime Minister), firms are grouped into politically-connected firms if they meet one of the following definitions, (1) firms that are owned by family members of the Shinawatra family (defined as the closely-connected firms with the government), (2) firms that are owned by family members of ministers in the Thaksin's governments in a period of 2001-2004, (3) firms that are owned by family members of the Thai Rak Thai Party's members, and (4) firms that are owned by family members of the Thai Rak Thai Party's donators (the financial supporters for the 2001 election), given that a member of his/her family or related families holds 10% shareholding or more of the firm. I use a cut-off point of ownership shareholding at 10% to define a major shareholder as prior literature suggests that such a stake lends sufficient power.[3]

Several sources of information are collected to define the presence of political connections,

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[3]It is noted that the sustainability of family firms is important to family succession and wealthMorck, Stangeland and Yeung, 2000 (Suehiro, 1989; Clegg, Redding and Cartner, 1990; Morck, et al., 2000; Anderson and Reeb, 2003).

including the Stock Exchange of Thailand, Thai government, Thai Rak Thai Party and Election Commission of Thailand. I collect 1) lists of family relationships, 2) lists of the ownership structure of Thai firms, 3) lists of Thai Cabinet, 4) lists of Thai Rak Thai Party's members, and 5) lists of financial supporters to Thai political parties. In order to trace ultimate shareholders, additional sources of information are used. Those information sources include the Business On-line database, company files (Form 56-1), lists of family business groups, lists of affiliated firms, and several books about wealthy families in Thailand.[4]

I use data of family relationships and ownership data as collected and processed by Khanthavit et al. (2003) and Polsiri and Wiwattanakantang (2003). They produce a comprehensive ownership database of Thai firms between 1995 and 2000, showing ultimate shareholders. The ultimate shareholding is calculated by combining direct shareholding, pyramidal shareholding and cross-shareholding.[5] In this study, the ownership structure of Thai firms after 2000 is defined as in Khanthavit et al. (2003) and Polsiri and Wiwattanakantang (2003).

Methodology

I use the Pooled Ordinary Least Square (OLS) method with standard errors clustered at the firm level for all specifications. The t-statistics computed using the clustered standard errors are adjusted for heteroscedasticity. All regression specifications are controlled for industry effects. Industry dummies of seven industries are included.[6] To examine whether political connections have an impact on firm performance, I use the following specification, in which $Performance_{i,t}$ is accounting-based

[4]The 56-1 forms are annual supplementary documents (in Thai) of listed firms required by the SET.

[5]The authors define direct and indirect shareholdings as follows. "Direct ownership" means that a shareholder owns shares under his own name or via a private company owned by him. "Indirect ownership" is when a company is owned via other public firms or a chain of public firms. This chain of control is in the form of pyramidal structures and/or cross-shareholdings, which can include many layers of firms.

[6]The Stock Exchange of Thailand classifies non-financial firms into eight industries, which are 1) Agribusiness and Food Industry, 2) Consumer Products, 3) Industrials, 4) Property and Construction, 5) Resources, 6) Services, 7) Technology and 8) Others.

performance[7], $Con_{i,t}$ is a dummy variable that is one if the firm is politically-connected according to the above four definitions, and zero otherwise, $Period_{i,t}$ is a dummy variable that is one in the period of Appointment, and zero otherwise (Period dummy is also defined for the periods of Pre-election or Decline-Coup), $Con_{i,t} * Period_{i,t}$ is an interactive dummy between the connection dummy and the period dummy, $Size_{i,t}$ is natural logarithm of total assets, $PPE_{i,t}$ is total property, plant and equipment, $LTD_{i,t}$ is long-term debt, and $TA_{i,t}$ is total assets. Size, fixed asset ratio and leverage ratio are used as control variables.

$$Performance_{i,t} = \alpha_{i,t} + \beta_1 Con_{i,t} + \beta_2 Period_{i,t} + \beta_3 (Con_{i,t} * Period_{i,t}) + \beta_4 Size_{i,t} + \beta_5 \frac{PPE_{i,t}}{TA_{i,t}} + \beta_6 \frac{LTD_{i,t}}{TA_{i,t}} + \varepsilon_{i,t}$$

Firm performance is also measured by market-based performance (Barber and Lyon, 1996, 1997). I use the market-adjusted cumulative abnormal returns (CAR) as a measure of stock return performance. The CAR measures the market-adjusted abnormal returns cumulated over time up to period T.

$r_{i,t}$ = (Return Index $_{i,t}$ – Return Index $_{i,t-1}$)/ Return Index $_{i,t-1}$

where $r_{i,t}$ is the total stock returns for an individual stock i at the end of day t.

The market benchmark is the market index (the index of Stock Exchange of Thailand (SET). The SET index is a market capitalisation weighted price index that compares the current market value of all listed common stocks with the value on the base value of 30 April 1975 (the date when the SET index was established and set at 100 points). The market-adjusted abnormal returns (AR) are the difference between individual stock returns ($r_{i,t}$) and the market return ($r_{m,t}$).

$r_{m,t}$ = (Market Index $_{m,t}$ – Market Index $_{m,t-1}$)/ Market Index $_{m,t-1}$

where $r_{m,t}$ is the market return at the end of day t.

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[7]The return on assets is a ratio of earnings before interest and tax to total assets. To calculate the industry-adjusted return on assets (MROA), I use industry mean weighted benchmark.

$$AR_{i,t} = (r_{i,t} - r_{m,t})$$

where $AR_{i,t}$ Ais the market-adjusted abnormal returns for an individual stock i at the end of day t, $r_{i,t}$ is the total stock returns for an individual stock i at the end of day t and $r_{m,t}$ is the market return at the end of day t.

$$CAR_{i,T} = \sum_{t=1}^{T}(r_{i,t} - r_{m,t})$$

where $CAR_{i,T}$ is the market-adjusted abnormal returns for an individual stock i at the end of day t, cumulated over time up to period T.

Furthermore, I use Difference in Differences (DID) estimate method to examine the difference in firm performance, market share and debt financing between connected and non-connected firms in different political conditions. The DID estimates will show the effect of the gain and loss of connections on firm performance, market share and debt financing between firms with and without political connections. The differentials between connected and non-connected firms are investigated in each period, and then the differentials between two periods are examined. According to Wooldridge (2003),

$$\text{DID estimator} = [E(y|Con_{i,t}=1, Period_{i,t}=1) - E(y| Con_{i,t}=0, Period_{i,t}=1)] -$$
$$[E(y|Con_{i,t}=1, Period_{i,t}=0) - E(y|Con_{i,t}=0, Period_{i,t}=0)]$$

Empirical results

The regression results in Panel A, Table 1 show the impact of political connections on firm performance. I find that the relationship between the connection dummy and the industry adjusted return on assets is not significant. The coefficient of the interactive term between the connection dummy and the period dummy is also not related to profitability after controlling for firm characteristics. In the PM appointment period, the presence of political connections does not affect on accounting performance of firms that are closely connected to the government. The industry adjusted return on assets of this group of firms is not different from firms that never have connections with the government in both the pre-election and decline-coup periods.

Nevertheless, the results in Panel B, Table 1 show that the coefficient of the interactive term between the connection dummy and the year 2007 dummy is negatively significant at the 5% significance level. As a result of the coup event, the accounting performance of firms that lose connections with the government (in other words, firms that are connected with the government in the PM appointment period) is significantly lower than that of non-connected firms in 2007. In addition, I find that size and leverage ratio of firms are determinants of accounting performance in both Panel A and B of Table 1. Firm size is positively related to accounting performance at the significance level of 5%. The leverage ratio is negatively related to accounting performance at the 1% significance level.

Table 2 reports the Difference in Difference estimates on firm performance. In Panel A of Table 2, I find that the difference in accounting performance between connected and non-connected firms is not significant after the gain of connections [(1)-(2)] and after the loss of connections [(2)-(3)]. However, Panel B of Table 2 shows that there is the difference between the connection differentials at the

significance level of 10%. The industry adjusted return on assets of firms that were connected with the government is lower than that of non-connected firms (5.06 percentage points) after the coup event (in 2007). The accounting performance of connected firms significantly decreases for 4.69% between the rising year (2004) and after coup (2007). The difference in differences estimates show that connected firms perform poorer than non-connected firms for 5.32% as a result of the loss of connections.

Furthermore, I investigate the impact of political connections on market-based performance, using market-adjusted cumulative abnormal returns (CARs). Table 3 reports that, in the year of 2001, the coefficient of connection dummy is negatively related to CARs at the significance level of 10%. The CARs over the year of 2001 of connected firms are significantly less than those of non-connected firms. In the election year, firms that gain connections with the government perform poorer than non-connected firms. It is possible that the allegation of asset concealment of the Prime Minister Thaksin at the beginning of the year adversely affected those firms' stock returns to some extent. Interestingly, the results do not

show the impact of connections on firm performance in the rising year of the Thaksin's government in 2004.

In addition, the connection dummy and CARs are negatively related at the significance level of 5% in 2006. The results show that the market-based performance of firms that lose connections as a result of the military coup in September 2006 significantly decreases. The negative stock reactions to the coup event indicate that the presence of connections is important for such firms, especially when their political connections are withdrawn.

Summary and conclusion

This paper examines the impact of political connections on firm performance in three different political periods, and the difference in firm performance between connected and non-connected firms after the gain and loss of connections. The results in this study show that the impact of political connections on firm performance is significant in Thailand. The accounting-based performance, measured by the industry adjusted return on assets, of firms that were connected with the government is significantly lower than that of

non-connected firms in 2007. The findings of difference in differences estimates in firm performance also report that the industry adjusted return on assets of firms that were connected with the government significantly decreases more than that of non-connected firms after the loss of connections. In addition, the negative stock reactions to the military coup in 2006 of connected firms support the previous findings. The market-based performance, measured by the market-adjusted cumulative abnormal returns (CARs), of connected firms is significantly lower than that of non-connected firms in the year of military coup.

The overall results support that the presence of political connections is important for firms in Thailand. The performance of firms that are connected with the Thaksin's government significantly decreases after the event of the military coup. However, it is interesting to further examine benefits of political connections in the way that they may help firms to obtain an easy access to external fund and better market position. An investigation into Thaksin Shinawatra's family firms that could be defined as the most closely-connected with the government may

complement previous evidence of large sample analyses. The performance, market share and debt financing of Shinawatra family firms may be different from other firms in the same industry as a result of the presence of political connections.

Table 1: Impact of political connections on firm performance

Panel A: This table reports the results of the pooled OLS regression. The dependent variable is the industry adjusted return on assets. Connection is a dummy variable that equals 1 if a firm is connected with the government, and zero otherwise. Pre-Election is a dummy variable that equals 1 in the period of 1998-2000, and zero otherwise. Appointment is a dummy variable that equals 1 in the period of 2001-2004, and zero otherwise. Decline-coup is a dummy variable that equals 1 in the period of 2005-2007, and zero otherwise. Natural logarithm of total assets is an indicator for size. The fixed asset ratio is a measure of asset tangibility. Leverage ratio is defined by a ratio of long-term debt to total assets. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The regression controls for industry effects. The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

Dependent variable:			
Industry adjusted ROA	(1)	(2)	(3)
Connection dummy	-0.0139	-0.0160	-0.0107
	(0.345)	(0.207)	(0.436)
Pre-Election dummy	0.0019		
	(0.761)		
Appointment dummy		0.0022	
		(0.677)	
Decline-coup dummy			-0.0041
			(0.458)
Connection x Pre-Election	0.0021		
	(0.873)		
Connection x Appointment		0.0065	
		(0.641)	
Connection x Decline-coup			-0.0094
			(0.434)
Ln(total assets)	0.0073**	0.0073**	0.0074**
	(0.014)	(0.013)	(0.012)
Total PPE/Total assets	-0.0010	-0.0028	-0.0031
	(0.950)	(0.864)	(0.842)
LTD/Total assets	-0.0592***	-0.0591***	-0.0602***
	(0.001)	(0.001)	(0.001)
Constant	-0.0481	-0.0478	-0.0465
	(0.188)	(0.186)	(0.199)
Observations	1,893	1,893	1,893
Adjusted R^2	0.0166	0.0169	0.0175

Table 1: Impact of political connections on firm performance (continue)

Panel B: This table reports the results of the pooled OLS regression. The dependent variable is the industry adjusted return on assets. Connection is a dummy variable that equals 1 if a firm is connected with the government, and zero otherwise. Year2007 is a dummy variable that equals 1 in the year of 2007, and zero otherwise. Year2004 is a dummy variable that equals 1 in the year of 2004, and zero otherwise. Year2001 is a dummy variable that equals 1 in the election year of 2001, and zero otherwise. Natural logarithm of total assets is an indicator for size. The fixed asset ratio is a measure of asset tangibility. Leverage ratio is defined by a ratio of long-term debt to total assets. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The regression controls for industry effects. The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

Dependent variable: Industry adjusted ROA	(1)	(2)	(3)
Connection dummy	-0.0088	-0.0146	-0.0130
	(0.476)	(0.284)	(0.314)
Year2007 dummy	0.0005		
	(0.925)		
Year2004 dummy		-0.0032	
		(0.550)	
Year2001 dummy			0.0063
			(0.314)
Connection x Year2007	-0.0453**		
	(0.035)		
Connection x Year2004		0.0126	
		(0.337)	
Connection x Year2001			-0.0041
			(0.804)
Ln(total assets)	0.0072**	0.0072**	0.0073**
	(0.013)	(0.014)	(0.013)
Total PPE/Total assets	-0.0013	-0.0017	-0.0026
	(0.934)	(0.914)	(0.870)
LTD/Total assets	-0.0595***	-0.0588***	-0.0594***
	(0.001)	(0.001)	(0.001)
Constant	-0.0473	-0.0468	-0.0477
	(0.192)	(0.197)	(0.188)
Observations	1,893	1,893	1,893
Adjusted R^2	0.0194	0.0167	0.0168

Table 2: Difference-in-differences estimates on firm performance

This table reports the difference-in-differences estimates on firm performance, which is the industry adjusted return on assets. Firms are classified into two groups; connected and non-connected firms. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

Panel A : Pre-Election is a period of 1998-2000. Appointment is a period of 2001-2004. Decline-coup is a period of 2005-2007.

		Connected (C)	**Non-connected** (N)	Difference (C – N)
Pre-Election	(1)	-0.0052	0.0008	-0.006
(1998-2000)				(0.639)
Appointment	(2)	-0.0036	0.0006	-0.0042
(2001-2004)				(0.799)
Decline-Coup	(3)	-0.0136	0.0019	-0.0155
(2005-2007)				(0.297)
Difference	(1)-(2)	-0.0016	0.0002	-0.0018
		(0.917)	(0.970)	(0.910)
Difference	(2)-(3)	0.0100	-0.0013	0.0113
		(0.492)	(0.816)	(0.457)

Panel B : After-coup is the year of 2007. Rising year is the year of 2004. Election year is the year of 2001.

		Connected (C)	**Non-connected** (N)	Difference (C-N)	
After coup	(1)	-0.0447	0.0059	-0.0506	
(Y2007)				(0.066)	*
Rising year	(2)	0.0022	-0.0003	0.0026	
(Y2004)				(0.857)	
Election year	(3)	-0.0079	0.0012	-0.0091	
(Y2001)				(0.666)	
Difference	(1)-(2)	-0.0469	0.0063	-0.0532	
		(0.098) *	(0.367)	(0.055)	*
Difference	(2)-(3)	0.0101	-0.0016	0.0117	
		(0.664)	(0.845)	(0.625)	

Table 3: Impact of political connections on stock returns

This table reports the results of the pooled OLS regression. The dependent variable is the cumulative abnormal returns (CARs). Connection is a dummy variable that equals 1 if a firm is connected with the government, and zero otherwise. Natural logarithm of total assets is an indicator for size. Leverage ratio is defined by a ratio of long-term debt to total assets. The fixed asset ratio is a measure of asset tangibility. Profitability is measured by a ratio of earnings before interest and tax to total assets (ROA). The White's standard errors are adjusted for heteroskedasticity (White, 1980). The regression controls for industry effects. The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

Dependent variable: CARs	Y 2001	Y 2004	Y 2006	Y 2007
Connection dummy	-0.2343*	0.0583	-0.2411**	0.1265
	(0.075)	(0.470)	(0.013)	(0.145)
Ln(total assets)	-0.1025***	0.0400*	-0.0451	-0.0460
	(0.001)	(0.051)	(0.148)	(0.198)
LTD/Total assets	0.3809***	-0.1303	0.1867	0.1209
	(0.000)	(0.424)	(0.570)	(0.547)
Total PPE/Total assets	-0.1294	0.3756***	-0.0135	-0.3086*
	(0.440)	(0.001)	(0.941)	(0.058)
Return on assets	1.5468***	0.8195***	2.2213***	0.8153
	(0.001)	(0.002)	(0.000)	(0.178)
Constant	1.1456***	-0.4284**	0.5006	0.2052
	(0.000)	(0.015)	(0.114)	(0.477)
Observations	162	194	211	205
Adjusted R^2	0.293	0.1868	0.1584	0.0089

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