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ลิขสิทธิ์ของจุฬาลงกรณ์มหาวิทยาลัย

POLITICAL CONNECTION, CORPORATE GOVERNANCE
AND FIRMS' PERFORMANCE

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ศูนย์วิทยทรัพยากร
จุฬาลงกรณ์มหาวิทยาลัย

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วิทยานิพนธ์ฉบับนี้ศึกษาผลกระทบของความสัมพันธ์ทางการเมืองและระดับบริษัทภิบาล ต่อผลประกอบการของบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทย ระหว่างปีพ.ศ.2541-2551 งานวิจัยฉบับนี้ยังได้เสนอวิธีในการระบุบริษัทที่เข้าข่ายว่ามีความสัมพันธ์ทางการเมือง และการแบ่งกลุ่มบริษัทดังกล่าวตามลักษณะของความสัมพันธ์อย่างเป็นระบบ วิธีการดังกล่าวจะช่วยให้การวิจัยความสัมพันธ์ทางการเมืองสามารถที่จะขยายขอบเขตนิยามของบริษัทที่มีความสัมพันธ์ทางการเมืองออกไปได้และทำให้สามารถสับเปลี่ยนกลุ่มตัวอย่างที่เข้าข่ายแต่ละนิยามได้อย่างสะดวก ผลการวิจัยแสดงให้เห็นว่า บริษัทที่มีความสัมพันธ์ทางการเมืองกับคณะรัฐมนตรีมีผลประกอบการที่เกินกว่าตลาดอย่างมีนัยสำคัญ อย่างไรก็ตามบริษัทที่มีความสัมพันธ์ทางการเมืองกับสมาชิกสภาผู้แทนราษฎรทั้งจากพรรคร่วมรัฐบาลและฝ่ายค้านนั้นไม่ได้รับประโยชน์อย่างมีนัยสำคัญ และเมื่อนำปัจจัยด้านบริษัทภิบาลและตัวแทนของการไหลของข้อมูลที่ไม่ใช่สาธารณะมาเป็นตัวแปรควบคุมเพิ่มเติมแล้ว พบว่าบริษัทที่มีความสัมพันธ์กับรัฐมนตรีนั้นยังสามารถที่จะได้รับผลประโยชน์ที่สูงกว่าตลาดได้อยู่ดี นอกจากนี้งานวิจัยยังพบว่าบริษัทที่มีระดับบริษัทภิบาลที่ดีกว่า มีผลประกอบการที่สูงกว่าด้วย อย่างไรก็ตามเมื่ออัตราการไหลของข้อมูลที่ไม่ใช่สาธารณะถูกนำมาพิจารณาแล้ว ผลที่ได้บ่งชี้ปัจจัยดังกล่าวมิได้ส่งผลให้บริษัทที่มีผลประกอบการที่ดีกว่าแต่อย่างใด

งานวิจัยยังได้นำข้อมูลเกี่ยวกับความสัมพันธ์ทางการเมือง ไปเชื่อมโยงกับเหตุการณ์รัฐประหารเมื่อ 19 กันยายน พ.ศ. 2549 เพื่อศึกษาผลกระทบของการเกิดขึ้นของการรัฐประหารต่อผลตอบแทนในหุ้นของบริษัทที่มีความสัมพันธ์ทางการเมือง ผลศึกษาจากการศึกษาเหตุการณ์พบว่า ผลตอบแทนของบริษัทที่มีความสัมพันธ์กับคณะรัฐมนตรีที่ถูกรัฐประหารให้หลังจากอำนาจนั้นได้รับผลกระทบเชิงลบอย่างมีนัยสำคัญ ซึ่งตรงข้ามกับผลตอบแทนของบริษัทที่มีสายสัมพันธ์ทางการเมืองกับสมาชิกสภาผู้แทนราษฎรฝ่ายค้านที่ได้รับผลกระทบเชิงบวกอย่างมีนัยสำคัญ ส่วนผลการศึกษาโดยใช้สมการถดถอยพบว่า บริษัทที่มีสายสัมพันธ์โดยตรงหรือโดยอ้อมกับรัฐมนตรีที่ถูกโค่นลงจากตำแหน่งโดยการรัฐประหารนั้นได้รับผลกระทบเชิงลบอย่างมีนัยสำคัญ เช่นเดียวกับบริษัทที่มีความสัมพันธ์โดยตรงและโดยอ้อมกับนักการเมืองที่ได้รับตำแหน่งหน้าที่จากการรัฐประหาร

ภาควิชา..... การธนาคารและการเงิน.....
สาขาวิชา..... การเงิน.....
ปีการศึกษา 2552.....

ลายมือชื่อนิติกร..... 
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SUBHADANAI SUBHAPHOLSIRI : POLITICAL CONNECTION,
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This study investigates the effects of political connection and corporate governance level on the performances of the listed firms in SET during 1999-2008. It also proposes the systematic method for matching politically connected firms and classifying them into specific categories, i.e., direct, strongly indirect and weakly indirect connection. This method allows researchers studying on political connection to widen the definition of politically connected firms and be able to easily switch the groups of qualified samples across definitions. The results indicate that the firms connecting with the cabinet members can significantly outperform the markets while the firms connecting with members of the House of Representatives do not. And, when the governance level and the proxy of private information flow are controlled, the outperformance of cabinet connected firms still persists. Moreover, the result from the study points out that the firms having higher corporate governance level have better performance, especially in term of Tobin's Q ratio. Even though, the firms having higher private information flow do not outperform the firms with lower one.

This research also studies the effect of the coup in 2006 on the stock returns of politically connected firms. The result from the event study suggests that the firms connecting with the overthrown cabinet members received significantly negative effect from the happening of the coup while the firms connecting with representatives from the opposition parties received the positive effect. By using the regression model on buy-and-hold stock returns, the firms direct or strongly indirect connecting with the overthrown cabinet members receive the significantly negative effect, likewise the firms connecting with the politicians assuming power from the coup.

Department : Banking and Finance.....

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CHAPTER I

INTRODUCTION

1.1 Background and problem review

In the competitive world, firms try to maximize their profits in the long run by both developing their ways of doing business and even creating political advantages, which are usually established through connections with politicians. Does political connection matter? Several researchers around the world are interested in this topic. Faccio (2006) indicates the evidence of the benefits received from political connection. Many researchers, such as Fisman (2001), Johnson and Mitton (2002), Goldman et al. (2006) and Bertrand et al. (2008), provide the evidences of the benefits from connection in several countries, both developed and emerging ones. For Thailand, Bunkanawitcha et al. (2008) and Imai (2006) find strong evidences of politically connected favors through many accounting and stock performances. Dusadee (2007) provides the mixed result. In sharp contrast, Udomworarat (2005) shows far less of the benefits generated from political connections. So far, the effect of political connection in Thailand is inconclusive.

The inconclusive result in Thailand may arise from two noteworthy causes. One is the difference in period focused by preceding studies which, perhaps, serve the disparate evidences. The other is from the omission of some relevant control variables such as corporate governance level and information flow. This conjecture is influenced from the works of Durnev et al. (2004), Ferreira et al. (2007)¹, Gompers et al. (2003) and Core et al. (2006)² which show that the firms with higher governance level and more openness, on average, will outperform the firms with lower ones. In Thailand, particularly, politically connected firms may have different standards of governance and degrees of openness from the non -politically connected firms. On the one hand, they could have

¹ These two papers imply that firm-specific return variation, as the proxy of information flow, causes improvement in the firm's performance in term of stock prices and quality in decision-making process.

² Gomper et al. (2006) find that firms with strong shareholder rights, on average, can have higher risk-adjusted stock returns, Tobin's Q, profitability and sales growth than those of firms with weak shareholder rights. Core, Guay and Ructicus (2006) extend the understanding from Gompers et al., and they find the evidence that weak shareholder's rights are associated with lower operating performance.

higher governance standards and information flow ³ because managements of these firms try to ensure the public keeping eyes on them that they follow the good governance and incur no suspicious activities or transactions. The incentive to do so is generated by the belief that this improvement will create trustworthiness to firms, managements and the connected politicians in term of openness, good governance, and transparency. On the other hand, the politically connected firms could also have poorer governance and openness. Probably, politically connected firms find no incentive to invest their resources for establishing the better governance standards because they feel that the political connections in hand are sufficient to provide satisfactory performances. Another viewpoint, in the radical view, is that they may not want to develop good governance and openness at all, because, in this aspect, the better governance and openness are more or less the obstacles against the reaping of benefits from connection as well as creating the transactions which undermine minority shareholders' interests. Therefore it is interesting to investigate the relation between political connection and governance. In one extreme, it might be the case that instead of political connection, the better in governance level and information flow are the explanations of the different in performances between these two groups.

The aim of this study is to reinvestigate the performances of politically connected firms between 1999 to 2008 period. This lengthened period allows us to investigate the effect of the 19th September 2006 coup to politically connected stocks. In addition, this paper control for the effect of corporate governance level and information flow in examining the effect of political connection. This study will provide further understanding on effects of political connections. Moreover, it will propose a basis for improving laws and regulations in order to promote the fair competition among firms in Thai capital market. Also, the insight from the study is determined to be useful for the corporate managements who are pondering about creating or developing the governance standards for the firms.

1.2 Statement of problem

³ In this study, the term openness and information flow will be used interchangeably.

The exploited benefits contributed from political connections can distort the decision making of the investors, misallocate the resources of capital market and discourage the fair competitions. These political rents also hinder the efficient development of the country as the benefits of society are abandoned. The preceding studies on political connection in Thailand present somewhat inconclusive evidences. Probably, these researches overlook some relevant variables, such as the corporate governance level and information flow, which are arguably the performance generators as seen by a number of researchers. The main research issue is whether the politically connected firms outperform the non-politically connected firms after controlling for corporate governance level and/or information flow.

1.3 Objectives

The study has two main objectives as follows:

- To reexamine the empirical evidence of politically connected firms in Thailand by extending the study period to cover the recent coup so as to provide the opportunity to gain further insight of the effect of political connections.
- To investigate on whether corporate governance and information flow practically bring about the outperformance of the politically connected firms.

1.4 Scope of the study

The sample contains cross-sectional data of firms listed on the Stock Exchange of Thailand (SET) during the period of a number of Prime Ministers, i.e., Chuan Leekbhai, Thaksin Shinnawatra, Surayud Chulanont and Somchai Wongsawat (1999-2008). Approximately, the sample will extend to 450 firms.

1.5 Contribution

This paper will reinvestigate the benefits the business firms receive from the political connection in Thailand. The results could indicate the growth of performances resulting from these connections. The study also provides various more in-depth studies by separating period into two regimes, loosening definition of political connection,

showing the results from two different sources of political connections, and re-classifying the representatives to ones from coalition parties and from opposition parties. Furthermore, the effect of political connection on the occurrence of the 2007 coup will be shown. And after controlling for the corporate governance level and information flow of the firms, we will realize if the benefits from political connection can be sustained and how these added control factor affect the performances. The insight obtained from the latter question will bolster the decisions relevant to the development of the firms' corporate governance standards and direction of the regulation enactment. Last but not least, the way this paper handles with the collection and analysis of political data, particularly for the matching process, is, hopefully, deserved some value as well.

1.6 Organization of the study

This research will be organized as following. Chapter 1 shows the background of the problem, the issue to be studied, the objectives and scope of this study. Chapter 2 is the literature review. This chapter details the preceding researches on the political connection, the corporate governance, the idiosyncratic volatility and information flow that are relevant to the study. Chapter 3 presents the statistic description, scope and the source of data. Chapter 4 explains the methodology of this research. Chapter 5 represents the results and interpretations from the estimation in Chapter 4. Chapter 6, which is the last one, sees the conclusion of study.

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CHAPTER II

LITERATURE REVIEWS

This chapter presents reviews of related literature and previous studies engendering the framework of this study. Related literature review will be separated into 3 parts; the influence of political connection, corporate governance and performance of firms and firm-specific return variation, the probability of informed-base trading and performance of firms

2.1 The influence of political connection

Even in the developed country such as United States, Germany, and France, the benefits from economic rents also are presented through several accounting characteristics and market performances of the companies.⁴ Cooper, Gulen, and Ovtchinnikov (2008) construct variables that measure the extent of firm support for candidates. They find that these measures are positively and significantly correlated with the cross-section of future returns. The benefits of political connections seem more common in Asia, where the cronyism-capitalism is not a new issue. The business entities often run their operations with some supports from their connected network.⁵ Fisman (2001) and Johnson et al. (2002) show that connections with the most important political leaders contribute some values to the firms. However, they also suffer more when the connected politician's power declines. In China, where cronyism is called *guanxi*, there are a number of researchers focusing in this field such as Cheung, Lau, and Stuaraitis (2008) who find that firms controlled by central government benefits from transactions dealt with their central government state-owned enterprises.

Thailand is another country having ability to supply the ideal sources for studies on political connection. For long, the country is ranked from the indexers around the world as a highly corrupted one.⁶ (The ranking indices are estimated from both public and political sector.) These indices indicate the low level of transparency of Thailand's

⁴ See for examples on Cooper, Gulen, Ovtchinnikov (2008); Goldman, Rocholl, So (2006); Knight (2006) for United States; Niessen, Ruenzi (2007) for Germany, Bertrand, Schoar, Kramarz, Thesmar (2004) for France, Dombrovsky (2008) for Latvia.

⁵ See Fisman (2001) and Johnson, Mitton (2002) for example.

⁶ It is interpreted from the value provided in the International Corruption Perception Index - <http://www.transparency.org>

political processes. Hence, it is sensible to hypothesize that while the economic rents are able to occur without many of obstacles, the political connections could create values.⁷ As for the studies in Thailand, Udomworarat (2005) investigates the politically connected firms from 1993 to 2004 by using cross-section replicated portfolio and Fama-French three factors model (1993). She focuses on such accounting variables, stock performances, and event studies on the election dates. However Udomworarat (2005) does not find such strong evidence of the outperformance from the connected ones. Imai (2006) defines the benefit received as the better ROA and profitability ratio. In his study, the regression models are run with the data in the period of Thaksin Shinawatra's government. Another acknowledged work is created by Bunkanawitcha et al. (2008) who concentrate on the firms which are both connected with the cabinet members and owned by Thai tycoon families. The firms connected with the government of Thaksin Shinawatra are once again explored. The study finds the evidences that the connected firms earned the higher market shares, abnormal returns, and favorable public policies from their connection after the tycoons took over the national office in 2001.

2.2 Corporate governance and performance of firms

In the field of corporate governance, Gompers, Ishii, and Metrick (2003) provide the ideal support evidence indicating the superior performance from having the better governance standard. This paper finds the evidence that good governance could create value. By creating the governance index to proxy for the level of shareholder rights during the 1990s, after control for the market exposure, size, book-to-market, and momentum effects, the researchers find for the studied period that firms with strong shareholder rights (which they call them "democracy firms") have risk-adjusted stock returns that are 8.5% higher per year than those of firms with weak shareholder rights. Gompers et al. (2003) also finds the evidence of superiors on the Tobin's Q, profitability and sales growth implicitly coming from the higher in the firm's governance level. Core, Guay and Ructicus (2006) extend the understanding from Gompers et al. (2003), and they

⁷ Although, Faccio (2006) illustrates the moderately restricted level of regulations in Thailand, these restrictions are still being doubted of the effectiveness of appliance, the level of adoption and its transparency. For example, Thailand has the underdeveloped nominee holding legislation, which could enhance the manipulation on stock prices, illegal concealment, and money laundering. Another example, Bunkanwanicha and Wiwattanakantang (2008) illustrate the events of modification on public policies, which unfairly facilitated the ministers' firms.

find the evidence that weak shareholders' rights are associated with the lower operating performance. However, their paper disagrees with the finding of GIM (2003) in the point that weak governance causes weak stock returns. Bebchuk et al. (2009) is another paper that extends the finding of GIM (2003), by refining the selection of the components of the governance index. They find that the increases in the index level (more is worse) (whose components are considered relevant with the stock returns and Tobin's Q) are monotonically associated with economically significant reductions in firm valuation, large negative abnormal returns as well as Tobin's Q during the 1990-2003 period.

2.3 Firm-specific return variation, the probability of informed-base trading and performance of firms

The finding of Durnev, Morck, and Yeung (2004) support the argument implying that a firm-specific return variation is due to informed trading, and that share prices are actually closer to fundamental values where firm-specific return variation is higher. Moreover, this proxy of informed trading still causes improvement in the stock prices. With another interpretation of the finding is that firm specific return variation is verification that more informative stock prices facilitate more efficient corporate investment. Consistently with Durnev et al. (2004), the work of Ferreira and Laux (2007) denote that firms with fewer antitakeover provisions indicating the more openness, display higher levels of idiosyncratic risk which was after proved to be as the proxy of information flow, trading activity, and information about future earning in stock prices. The probability of informed-base trading, another variable that is hypothesized as a proxy of information flow, is also counted in to check for consistency with result from using the idiosyncratic volatility. Like others, this paper finds a positive correlation between idiosyncratic risk and decision-making quality. This study also decomposes the volatility into governance related and non-governance related components, and find that it is mainly non-governance related idiosyncratic volatility that is associated with the quality of investment decision making. This finding means that it is information flow more than governance that is the determinant of the practical business outcome.

Thailand is a country which has been regarded as a low transparent, inadequate investor protection and highly corrupted one for a long time.⁸ However, the evidences provided by several researchers focusing on the political connection in the country still are inconclusive. Some point out that Thai politicians exploit benefit by using their political offices to unfairly support their connected firms, while the others do not find such evidences. This discrepancy may result from lack of consideration and omission of factors that are actually relevant to the performances by the former researchers.

The literatures described above consistently show us that the better governance and more openness could contribute to the outperformance of the firms. Thus, in this study, governance level and information flow of firms will be taken into account and recognized as, possibly, sources of performances as well as the political connection. Then the political connection will be reinvestigated. And we shall see whether after controlling for information flow and governance level, the more conclusive results appear.



⁸ See International Corruption Perception Index, Castro et al. (2004), Haley (2000), Achavanuntakul (2006), Phongpaichit et al. (2005), Khan et al. (2000), and Piriyaangsan (2004) for examples.

CHAPTER III

SAMPLE AND DATA DESCRIPTION

3.1 Sample and data

Total samples are all the firms listed in the Stock Exchange of Thailand during 1999-2008, excluding the firms with incomplete or unavailable data and firms with negative equity in the Stock Exchange of Thailand. There are 3,492 firms-years included in the samples.

3.2 Source of data

Financial data

Financial data is obtained from two sources. The first is SETSMART data base which provides the data of Thai listed firms. The accounting data are taken from this source since 1998 to 2008. The second is DATASTREAM data base. The weekly and monthly total returns on stocks and SET index and risk free rates (Thai interbank rate) are collected from DATASTREAM data base in the same time period as precedent source as well as the accounting data.

Ownership and management data

The major shareholders' names and the board of directors' names are extracted from SETSMART online data base created by the Stock Exchange of Thailand (SET). By going through the data base, one could direct to the detailed ownership data that include the names of shareholders whose stockholding is 0.5% and more. For the list of major shareholders of the firms, the earliest reported data in a year will be used (which are often around the first quarter). The management names provided by SETSMART are limited to the top executives in each firm; the chairman, members of the board of directors and the chief executive officer. All board of directors who have enrolled in the firms in that particular year will be used.

Politicians' data

Members of House of Representatives and cabinet members have unequal political power and influence. The cabinet members have more chances and direct power to support their connected firms such as through policies and concessions. This paper generally categorizes the politicians into two groups; the cabinet member (*CAB*) and members of House of Representative (*REP*).⁹ The data of the cabinet members are obtained from the website of the Secretariat of the Cabinet. (www.cabinet.thaigov.go.th) and the data of representatives are collected from the parliament library and the website of the parliament (www.parliament.go.th).

3.3 Identification of politically connected firms

Basically, this paper regards a firm to be a politically connected one if it is connected to a politician who has been in office for at least six months that year. The procedures to identify political connection could be summarized into five main steps. First, the family names of politicians, which are categorized as the cabinet member and the representative, and dates that they take office during 1999 to 2008 are collected.

Second, the political connection is identified between the politicians and the families, defined by surname of the business groups in Thailand. The families will be considered as connected to politicians if the relationships between them fall into the four main features of connection as described as follows¹⁰:

- i. A politician is a member of a particular family or, in short, the relationship between the politician and family is by blood lineage.
- ii. A family has in-law relationship with a politician. The relationship is established through the marriage between the two families.
- iii. A family member is known to have a close relationship with the politician or the politician's families.
- iv. A family member has a noteworthy business partner status with a politician. Moreover, to identify the connection created through joint business, there are two conditions: First, the joint business must be a flagship company of a

⁹ See Definition Declaration in Appendix A for the detailed meaning and some little exception.

¹⁰ Please see Figure 5 in Appendix A for more details.

family or. Second; they must be co-owner of two or more companies. These details are stated in the Brooker Group's report.

The connection between politicians and each family will be identified in the above-mentioned steps. The types of connections will be noted aside the name of connected families. The first type of connection is considered as "direct connection to politicians" while the rests are considered as "strongly indirect connection" and "weakly indirect connection".¹¹ These will be useful for further analysis. Indirect connection statuses are mainly derived from the books- The Brooker Group's "A Unique Guide to Who Owns What" and Nation's "The Fifty-five Most Well-Known Families". The product of this step is the database informing the connection between families. The other books providing information for the indirect connections are stated in the Appendix C.

Third, we gather the private holding companies own by each family, especially for the top families. These lists of private companies are primarily collected from the Brooker Group's report (2003). This step will help collect the bigger set of the listed firms' shares hold by each family; particularly in case that family does not directly hold the firms but use the juristic person to do on their behalf.

In the forth step, the list of major shareholders and board members of listed firms provided by the SETSMART's data bases are then matched with the prepared surnames and private companies of the families whose relationship with the politicians fall into (i), (ii) (iii), and (iv).¹² The ensuing products are the surname or name (in case it is a juristic person) and percentage of total shares held by these people, for shareholding angle, and positions charged by them in the board members of the firms, for board members angle. For more details about matching procedure, please see in "Matching Procedure" section in Appendix I. The product from this step is the percentage or position held in the firm by each politically connected person.

Fifth and lastly, for the connection established through shareholder angle, the percentage of shares held by politically connected people will be summarized for each firm-year. Then if the summations for a firm are not less than the specific breakpoint, that firm will be counted as the politically connected firms through shareholding. (The

¹¹ Please see Definition Declaration section in Appendix A for more detail.

¹²This method is applicable because the family names in Thailand are quite unique.

specific breakpoint will be tested at 0.5¹³, 10¹⁴, and 20 percent). For the board members angle, the number of politically connected board members will be summarized for a firm-year. Likewise, the specific breakpoint will be applied. If the number of connected board members reaches that break point, the firm will be counted as the politically connected firms through board members. (The specific breakpoint will be tested at $\geq 1, 2, \text{ and } 3$ people). (Please see Figure 7 in Appendix A for more details.) At last, the firms that reach a specific cut-off level will be considered as politically connected firms.

While the higher cut-off level could present the higher effect from the political connection, nonetheless, in some cases the loosen definitions, i.e. strongly and weakly political connection definitions, will be adopted to alleviate the problem of shortage of samples while the number of politically connected firms can be added in without lowering the cut-off level, or also allow us to higher the cut-off level, classify the firms into subgroups or slicing a long period into shorter one. And our study will focus on this interchange as well.

3.4 Hypotheses development

Since the existing studies on political connections in Thailand are inconclusive, this hypothesis is to provide further investigation by lengthen the study period. According to Lin (2003) Castro et al. (2004) and Stulz (2005), Thailand is a country that has limited ownership diffusion and has underdeveloped investor protection. For long, the country is perceived as the low transparent one, especially in political context. Last but not least, the nominee legislation in Thai market is still poor and far behind the developed markets.¹⁵ According to these reasons, the politicians in Thailand do not face much hindrance to use their executive position in national office to unfairly support their connected firms such as through the policies, concessions and legislations which bestow benefits to their cronies and themselves. Hence, it is expected that this study will find the significant

¹³This 0.5% is the minimum percentage shareholding which is compulsively required the shareholders names to be shown in the SETSMART's data base.

¹⁴This cut-off point is generally used by several papers studying in political connection such as Imai (2006), Bunkanwanicha et al. (2009), Faccio (2006), Faccio et al. (2006), Khwaja et al. (2005) and etc.

¹⁵ According to "The use of nominee on Stock Exchange of Thailand", Achavanuntakul (2006)

evidence of benefit exploited by the political connection. According to this statement, the first hypothesis is quoted in the null form as follow:

Hypothesis 1: The politically connected firms do not outperform the non-connected firms.

Many researchers such as Bhagat et al. (2008) and Bebchuk et al. (2009) show us the evidences indicating the association between higher firms' corporate governance level and firms' subsequent performances such as ROA, Tobin's Q ratio and market returns¹⁶. In the field of credit rating which also implies to the cost of capital, Bhojraj et al. (2003) and Ashbaugh-Skaife et al. (2006) point out evidence of the higher credit rating from having superior governance level as well. The finding of Li et al. (2004), Malkiel et al. (2004) and Jin et al. (2006) imply that the firm specific variation can be the proxy of openness of the firms and it causes an improvement in stock prices. Moreover, Ferreira et al. (2007) also suggest that the firm specific variation positively relates with the quality of investment decision¹⁷. According to the idea supports from these papers, the firms with the better governance standard and information flow are anticipated to outperform the firms with worse one. To be consistent with these research papers, this paper is expected to find the significant evidence indicating that the stronger governance and higher information flow generate the higher performances of the connected firms. According to this statement, the second hypothesis is quoted in the null form as follow:

Hypothesis 2: The better in corporate governance and information flow do not cause the outperformance of the politically connected firms.

¹⁶ See for more examples on Bai et al. (2004), Brown et al. (2004), Klapper et al. (2004), Black et al. (2005) and Andres et al. (2008).

¹⁷ For more examples see Goyal et al. (2001), Shen (2007) and Spiegel et al. (2005)

CHAPTER IV

METHODOLOGY

4.1 Data description

First of all, descriptive statistics of the characteristics of the politically connected firms and the non-connected firms are investigated. These characteristics include ROA, ROE, Tobin's Q, firms' size, firms' age, DE ratio, interest coverage ratio, profitability ratio, firm specific return variations, the probability of informed-base trading and governance level.

Table 1 exhibits the quantities of politically connected firms. Panel A presents the quantities of politically connected firms by various definitions and cut-off level. The matching is done through shareholding and board of directors lists which are separately shown in the panel.

Panel B focuses on direct connection definition which is frequently used in the study (it is conventional and conservative meaning) and shows the quantities of connected firms in yearly manner. For the whole period of the study (1999-2008) when shareholding as the source of connection is used, there are 62 cabinet connected firms-years which equal to 1.8% of all non-financial firms and 173 (5%) representative connected firms-years. When the board of directors list as the source of connection is considered, there are 39 (1.1%) cabinet connected firms and 261 (7.5%) representatives connected firms-years. It is also interesting to note that in the period of Thaksin's regime (2001-2005), there are more firms connected with politicians than the period of non-Thaksin's regime (1999-2000 and 2007-2008). During 2001-2005, when the connection established through shareholding is calculated, there are 2.5% of total firms that connect with cabinet members and 6.4% of total firms connecting with representatives politicians, while in the non-Thaksin's period, there are only 0.8% and 2.6% of total firms that connect with cabinet and representatives respectively. However this increasing number is not only from the Thaksin's TRT parties, it is also from the others parties as well (e.g. Democrat). While representatives connected firms found through board of directors are more than through shareholding, cabinet connected firms exhibit contrastively.

The increasing numbers of politically connected firms (both cabinet connected and representative connected firms) in the period of Thaksin's regime conform to the suggestion of Thanee Chaiwat (2006) that the changed contexts of political market around year 2000-2001 are the factors that encouraged and induced the businesspeople joining the political market. This research also points out that there is more incentive for the business sectors to pierce through the government office by, particularly, establishing the new-type relationship with the political groups, the relationship which he called "the relationship that led by the business group and supported by the political group. If the business units jumping in the political arena have hidden agenda to exploit the societies and their competitors' benefit through the design of rent-seeking policy, concession contracts or other contracts that are not fair to people. Hence, it could be the case that the deeper involvement by one big business group who newly jumps in the political market would tempt other business groups to do the same in order to protect their market share. This could drastically increase the numbers of the businesspeople or the agent of these businesspeople in the political arena.

Table 1 Sample of politically connected firms

Panel A: Numbers of politically connected firms – whole period

Panel A shows the quantities of politically connected firms-year defined by each definition for the whole period (1999 - 2008) in Stock Exchange of Thailand. Politicians are classified into cabinet members (*CAB*) and representatives (*REP*). It reports the quantities of politically connected firms derived from matching process which uses the connection through shareholding and through board of directors as the source of political connection. The first three columns report the quantities of connected firms by using the direct connection definition in matching process while the next three and the last three columns add the strongly indirect connection and indirect connection definition into the matching rules, respectively. Cut-off level utilized are 0.5%, 10% and 20% for the connection through shareholding and 1 person, 2 persons and 3 persons through board members.

Definition used	Direct connection			Direct or strongly indirect connection			Direct or indirect connection		
	$\geq 0.5\%$	$\geq 10\%$	$\geq 20\%$	$\geq 0.5\%$	$\geq 10\%$	$\geq 20\%$	$\geq 0.5\%$	$\geq 10\%$	$\geq 20\%$
Connection established through shareholding									
Cut-off level	$\geq 0.5\%$	$\geq 10\%$	$\geq 20\%$	$\geq 0.5\%$	$\geq 10\%$	$\geq 20\%$	$\geq 0.5\%$	$\geq 10\%$	$\geq 20\%$
<i>CAB Connected</i>	192	62	55	320	92	81	527	164	130
<i>REP Connected</i>	956	173	82	1031	218	131	1051	366	262
Connection established through board of directors									
Cut-off level	≥ 1	≥ 2	≥ 3	≥ 1	≥ 2	≥ 3	≥ 1	≥ 2	≥ 3
<i>CAB Connected</i>	226	39	17	289	73	31	407	154	71
<i>REP Connected</i>	796	261	109	927	375	188	1077	498	257

Table 1 Sample of politically connected firms – (continue)**Panel B: Numbers of politically connected firms – Yearly**

Panel B presents the number of politically connected firms each year in Stock Exchange of Thailand. Politicians are classified into cabinet members and representatives. It reports the quantities of politically connected firms derived from matching process which using the connection through shareholding and through board of directors as the source of political connection. The number of connected firms in the panel comes from utilizing the 10% cut-off level in judgment process for the connection matched through shareholding data and 2 persons cut-off level for the connection matching through board members data.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	99-08
Direct Connection through shareholding - 10% cut-off											
<i>CAB Connected</i>	2	4	8	9	8	11	10	6	0	4	62
<i>REP Connected</i>	9	9	23	25	20	23	25	24	1	14	173
Direct Connection through board of director - 2 persons cut-off											
<i>CAB Connected</i>	3	2	6	4	4	6	5	5	3	1	39
<i>REP Connected</i>	18	12	37	40	44	43	23	20	3	21	261

Overall descriptive statistics, as exhibited in Table 2, represent the characteristics of politically connected firms and their matched firms. The politically connected firms are cabinet connected firms and representative connected firms. The table is divided into two panels. The first is for the descriptive statistics of politically connected firms matched through shareholding and the second is for the ones through board of directors. Each panel reports performance characteristics (Tobin's Q ratio, ROA, ROE), accounting characteristics (size, age in month, DE ratio, interest coverage, asset growth, operating income per total asset and revenue per total asset) and corporate governance characteristics (corporate governance index (CGI), components of CGI (board structure, conflict of interest, board responsibility, shareholder right and disclosure and transparency), idiosyncratic volatility (IDIO) and probability of information based trading (PIN).

As shown in the Panel A, performance and accounting characteristics, there are three significant differences between cabinet connected firms and their matched firm which are Tobin's Q ratio, size and Revenue/Asset. The first two variables imply that the firms connect with cabinet members tend to be the large firms in term of market capitalization and book value of asset. The negative difference in Revenue/Asset could be inferred that these firms has lower asset turnover which can be due to their big size. About ease to access the debt financing and profitability, cabinet connected firms have higher DE ratio, lower interest coverage and higher operating income per asset

comparing with the matched firms, but these differences are not vivid enough to be significant. In corporate governance characteristics, the cabinet connected firms show the significantly higher magnitude in probability of information-based trading and lower amount in the idiosyncratic volatilities. Interestingly, while the idiosyncratic volatility and the probability of information-based trading are similarly hypothesized as the firm-specific information, the descriptive statistics of the cabinet connected firms presents the different interpretation. The cabinet connected group also demonstrates the significant better CGI and its three components; board structure, board responsibility and shareholder right comparing with the matched firms. This evidence provides us an idea that the politically connected firms are not the badly-run firms even though they might somehow benefit from their political connection. This might be due to two points. First, the result above shows that these firms are the big ones in term of total asset, thus they have potential to adopt the developed governance standards. Second, the nature of cronyism appearing in the country, low transparency and highly corrupted in political process have brought big business persons, when possible, to make an attempt seeking the political connection which could provide the huge benefit to their businesses. These connected firms generally are big companies and run by somewhat highly reputed icons who can access to the top political power. As previously stated in the question of the study, it could be the case that the gap in corporate governance standard could explain the prevailing performance of politically connected firms discovered by Imai (2006) and Bunkanawitcha et al. (2008). This premise will be rechecked in the second section of the study result. By contrast to the cabinet connected firms, representative connected firms tend to have significantly lower profitability in term of ROE, operating income per asset and revenue per asset comparing with their matched group. They are also longer established than their matched firms. In the context of information flow and corporate governance, they present evidences of higher index of the conflict of interest, one of the CGI components.

As for Panel B, Characteristics of politically connected firms found through board of directors, there are some different results from those prior shown in Panel A. The firms connected with cabinet members do not show significant differences from their peers in term of performance characteristics, even though they demonstrate positive sign. In

accounting characteristics, the firms connecting with cabinet members also shows positive significance in the difference with their peers when the Revenue/Asset is compared. Moreover, the size of cabinet connected firms is not significantly different from their matched firms. These contrast to ones we got from the connection through shareholding. In governance characteristics, only shareholder right item of the cabinet connected firms shows significantly superior from their peers. The firms connecting with representatives from the matching through the board of directors list shows quite consistent in characteristic differences (from their peers) with the representative connected firms finding from the list of shareholding showing in Panel A. Their performances in term of ROA are significantly less than their matched firms as well as Revenue/Asset. They are longer established than their peers. And, in the governance characteristics, the firms connecting with representative also have higher conflict of interest index and lower in board structure index, the two components of CGI.

Table 3 illustrates the correlation matrix of the corporate governance indicators. It is shown in the table that CGI and its components are somewhat negatively correlated with the proxies of information flow. The correlations between all components of CGI show the positive correlations.

Table 2 Descriptive statistics

Descriptive Statistics represent politically connected firms' characteristics. Panel A presents characteristics of politically connected firms found through shareholding and Panel B demonstrates ones found through board of directors. Direct connection definition is utilized in the political matching process. Each panel shows performance characteristics of politically connected firms (Tobin's Q ratio, ROA, ROE), accounting characteristics (size (natural log of total asset), Age in month, DE ratio, interest coverage ratio, asset growth, operating income per asset and revenue per asset) and governance characteristics (corporate governance index (CGI), CGI components, the idiosyncratic volatilities (IDIO) and the probability of information based trading (PIN)).

Panel A: Characteristics of politically connected firms found through shareholding

	CAB	REP	Matched CAB	Matched REP	CAB-Matched	REP-Matched
Performance characteristics						
TOBIN'S Q	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)
Accounting characteristics						
Size	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 (Month)	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	65.1038 (10.1192)	65.3367 (8.8807)	59.3103 (22.31)	89.0809 (8.8224)	5.7935 (29.6477)	-23.7442* (13.7468)
Interest Coverage	35.7637 (89.1853)	101.9046 (28.0499)	221.6227 (77.4176)	109.327 (47.5369)	-185.859 (121.9817)	-7.4224 (68.9606)
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)
Operating Income/Asset	0.069 (0.015)	0.035 (0.009)	0.039 (0.011)	0.053 (0.006)	0.030 (0.018)	-0.019* (0.010)
Revenue/Asset	0.650 (0.055)	0.939 (0.045)	0.954 (0.065)	1.054 (0.036)	-0.304*** (0.094)	-0.115* (0.059)

Table 2 Descriptive statistics – (continue)

	CAB	REP	Matched CAB	Matched REP	CAB-Matched	REP-Matched
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)
PIN	0.272 (0.030)	0.292 (0.017)	0.215 (0.015)	0.296 (0.010)	0.057* (0.031)	-0.005 (0.019)
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 Right	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 found through board of directors

	CAB	REP	Matched CAB	Matched REP	CAB-Matched	REP-Matched
Performance characteristics						
TOBIN'S Q	1.800 (0.301)	1.150 (0.055)	1.441 (0.114)	1.248 (0.049)	0.3591 (0.269)	-0.0986 (0.077)
ROA	0.051 (0.017)	0.001 (0.021)	0.029 (0.014)	0.058 (0.016)	0.0215 (0.022)	-0.057** (0.026)
ROE	0.067 (0.030)	-0.134 (0.174)	0.003 (0.056)	0.057 (0.029)	0.0644 (0.080)	-0.1908 (0.139)

Table 2 Descriptive statistics – (continue 2)

	CAB	REP	Matched CAB	Matched REP	CAB-Matched	REP-Matched
Accounting characteristics						
Size	15.081 (0.284)	15.266 (0.0978)	15.089 (0.1898)	15.132 (0.0702)	-0.0076 (0.3329)	0.1341 (0.1184)
Age (Month)	271.547 (22.8553)	353.615 (14.1733)	281.420 (15.1805)	291.649 (8.3854)	-9.8735 (26.8178)	61.9659*** (15.4194)
DE Ratio	69.4882 (23.0245)	77.9217 (7.7562)	94.9549 (13.7531)	92.426 (6.8995)	-25.4668 (25.2264)	-14.5043 (10.8651)
Interest Coverage	46.9233 (141.525)	227.6634 (60.065)	91.2365 (36.3847)	5732.1732 (4672.3623)	-44.3132 (111.2787)	-5504.5098 (6375.1094)
Asset Growth	0.063 (0.0383)	0.351 (0.249)	0.091 (0.0262)	0.096 (0.0132)	-0.0275 (0.0455)	0.255 (0.1915)
Operating Income/Asset	0.070 (0.019)	0.027 (0.0139)	0.046 (0.0143)	0.045 (0.0083)	0.024 (0.024)	-0.0183 (0.0152)
Revenue/Asset	1.364 (0.2205)	0.751 (0.04)	0.926 (0.0711)	0.927 (0.0348)	0.4379** (0.1879)	-0.1766*** (0.0548)
Corporate governance characteristics						
IDIO	1.799 (0.2227)	2.573 (0.1615)	2.382 (0.2453)	2.721 (0.1027)	-0.5829 (0.3777)	-0.1487 (0.1831)
PIN	0.295 (0.046)	0.278 (0.0121)	0.238 (0.0159)	0.284 (0.0087)	0.057 (0.0402)	-0.0056 (0.0145)
CGI	0.523 (0.0258)	0.475 (0.0095)	0.484 (0.0218)	0.472 (0.0072)	0.0386 (0.0351)	0.003 (0.012)
- Board Structure	0.554 (0.0409)	0.397 (0.0136)	0.470 (0.0335)	0.444 (0.0112)	0.0835 (0.0545)	-0.0467*** (0.018)
- Conflict of Interest	0.411 (0.0282)	0.445 (0.011)	0.418 (0.0225)	0.399 (0.0076)	-0.0062 (0.0369)	0.0459*** (0.013)
- Board Responsibility	0.538 (0.0359)	0.514 (0.0144)	0.528 (0.0283)	0.518 (0.0107)	0.0097 (0.0466)	-0.0038 (0.0178)
- Shareholder Right	0.473 (0.031)	0.413 (0.0129)	0.371 (0.0251)	0.405 (0.0102)	0.1026** (0.0409)	0.0079 (0.0166)
- Disclosure and Transparency	0.618 (0.0357)	0.563 (0.015)	0.573 (0.0283)	0.559 (0.0109)	0.0451 (0.0464)	0.0032 (0.0183)

Table 3 The correlations between idiosyncratic volatilities, CGI, and the components of CGI

This table shows the correlation between idiosyncratic volatilities (*IDIO*), CGI and the component of CGI (*Board Structure*, *Conflict of Interest*, *Board Responsibility*, *Shareholder Right* and *Disclosure & Transparency*). *IDIO* is measured at year *t* while CGI and its components are measured at year *t-1*.

	<i>IDIO</i>	<i>PIN</i>	<i>CGI</i>	<i>Board Structure</i>	<i>Conflict of Interest</i>	<i>Board Responsibility</i>	<i>Shareholder Right</i>	<i>Disclosure & Transparency</i>
<i>IDIO</i>	1							
<i>PIN</i>	0.185	1						
<i>CGI</i>	-0.247	-0.155	1					
<i>Board Structure</i>	-0.173	-0.128	0.624	1				
<i>Conflict of Interest</i>	-0.228	-0.079	0.703	0.326	1			
<i>Board Responsibility</i>	-0.118	-0.118	0.806	0.303	0.430	1		
<i>Shareholder Right</i>	-0.180	-0.097	0.723	0.302	0.409	0.601	1	
<i>Disclosure & Transparency</i>	-0.218	-0.129	0.835	0.332	0.453	0.631	0.590	1

4.2 The reexamination of the effects of political connections

Political connections and stock returns

To test on advantage of political connection, this study initially divides the samples into two categories. One is the connected group which is considered as connected to politicians or cabinet/VIP, the other is non-connected group. Then the study follows Fama-French (1993) three factors model and estimates the regression on the samples by the equation. The weekly returns of a group are formulated by both equally weighted. The intercepts of the regressions of these two groups will be tested for differentiation by t-test. The time-series data during 1999 to 2008 will be regressed with OLS. The SMB and HML portfolios will be rebalanced at the end of June each year. Specifically, Fama-French (1993) three factors model is as follows:

$$R_{i,t} = \alpha_i + \beta_i \cdot R_{mt} + s_i \cdot SMB_t + h_i \cdot HML_t + \varepsilon_{i,t} \quad (1)$$

where i indicates the portfolio created from a group of stocks; 1 means portfolio created from politically connected stocks and 2 means non-connected ones. R_{it} is the excess weekly returns of portfolio i in week t . R_{mt} is market excess weekly return. SMB_t is the difference between the returns on a portfolio of small stocks and a portfolio of large stocks at week t . HML_t is the difference between the weekly returns on a portfolio of high book-to-market and a portfolio of low book-to-market at week t . The study period is run from 1999 to 2008.

It is expected that politically connected firms are able to generate the excessive returns than the non-connected ones. Hence, the t-statistic test on the intercepts difference is expected to show the significantly positive sign which can lead us to reject the first null hypothesis.

Political connection and firms' performances

To measure the contribution from political and cabinet connection, the regression analysis is undertaken. To see whether the connections through politicians can improve the firm's performances in several views, four dependent variables are employed in the tests. The dependent variables involved in this section are ROA, ROE and Tobin's Q

ratio. The set of control variables are shown in the Appendix B. The regression model can be shown in the general form as below:

$$\text{Performance}_{j,t} = \alpha + \beta_1 \cdot \text{CAB}_{j,t} + \beta_2 \cdot \text{REP}_{j,t} + \sum_{k=1}^n \gamma_k \cdot \text{Control}_{kj,t} \quad (2)$$

where $\text{REP}_{i,t}$, $\text{CAB}_{j,t}$ are the dummy variables that take on a value of one if the firm is connected to a cabinet member and a representative, respectively, and zero otherwise. If a firm is considered as connected to cabinet members it will not be connected to representatives. $\text{Control}_{j,t}$ denotes the set of control variables; such as interest coverage ratio, of firm i in the fiscal year t which we assume to begin at 1st July each. The focused study period is 1999-2008.

The β is expected to be significantly positive which could lead us to reject the first null hypothesis and state that the political connection could create value to the firms.

4.3 The coup study

Impact of the coup d'état

To determine the effect of political domination of the government office, we examine the performances into the passive portfolio returns (buy-and-hold abnormal returns¹⁸). This section makes an attempt to replicate and extend the work of Bunkawanicha (2009) by utilizing the event of the coup d'état on 19 September 2006.

For passive portfolio returns, BHARs of firms will be calculated for pre-election and post-election periods. The pre-election BHARs of connected firms will cover consecutive 12 months period prior 2 months before the coup. In the post-election period, three sets of BHARs for each firm over consecutive monthly periods are computed; 12, and 24 months after then. After BHARs as the dependent variable are obtained, the cross-sectional regression analysis on the control variables and political connection indicators is conducted. The set of control variables are shown in the Appendix B. The regression model can be shown in the general form as below:

¹⁸ We use the standard approach suggested by Barber and Lyon (1997) to calculate buy-and-hold abnormal returns (BHARs).

$$BHARS_j = \alpha + \beta_1 \cdot CAB_j + \beta_2 \cdot REP_j + \sum_{k=1}^n \gamma_k \cdot Control_{kj} \quad (3)$$

where subscript j represent firm. $BHARS_j$ is the buy-and-hold abnormal return of firm j . The meaning of CAB_i and REP_i are the same as above. The control variables are measured at the firm level as of the end of year 2006. This test covers the period around the 2006 coup.

Moreover, the study will proceed to determine the effect of politicians leaving the office as well. The method is very similar to the study on the effect of taking office. The study on effect of leaving office is also focused on the coup event which the governments under PM Thaksin were abruptly overthrown.

To be consistent with anticipation, in the study of the effect of taking office, β of after election period in eq. (3) is expected to be significantly positive while β of pre-election period in eq. (3) is expected not to become positive significant and otherwise for studying the impact of losing the power by the coup. This result would lead us to reject the first null hypothesis.

For the samples used in this sub-section, eighteen firms in rehabilitation, twelve firms with negative book-value, forty-two firms which have no price change, thirty-two firms which does not fully traded in the whole period (2005-2007) (some might have been already delisted from SET but the Datastream still performs as they have been in trading board, hence there is no change in the prices of these firms), 20 firms which have incomplete data and a firm which has average BHARs per year greater than 1000% (de facto, it's over 3000%) are all excluded from the sample list. Consequently, 328 firms are finally included in the samples.

Due to the lack of political connection firms when a year is focused, this study uses a set of combination between the source indicating of the politically connection firms which we will call “SH-BD Cooperation connection” (stands for shareholding-board of director cooperation) or only “Cooperation”. This combines the connection definition through shareholding and board of directors into one group. The connection

that meets any of these requirements is considered one with the cabinet members through Cooperation¹⁹:

1. The firm connects with the cabinet member through both shareholding and board of director at 0.5% and 1 person cut-off respectively.
2. The firm connects with the cabinet member through shareholding at 10% cut-off.
3. The firm connects with cabinet member politicians through board of director at 2 people cut-off.

By replacing cabinet member with representative in these three conditions, the conditions are for connection with the representatives through Cooperation.

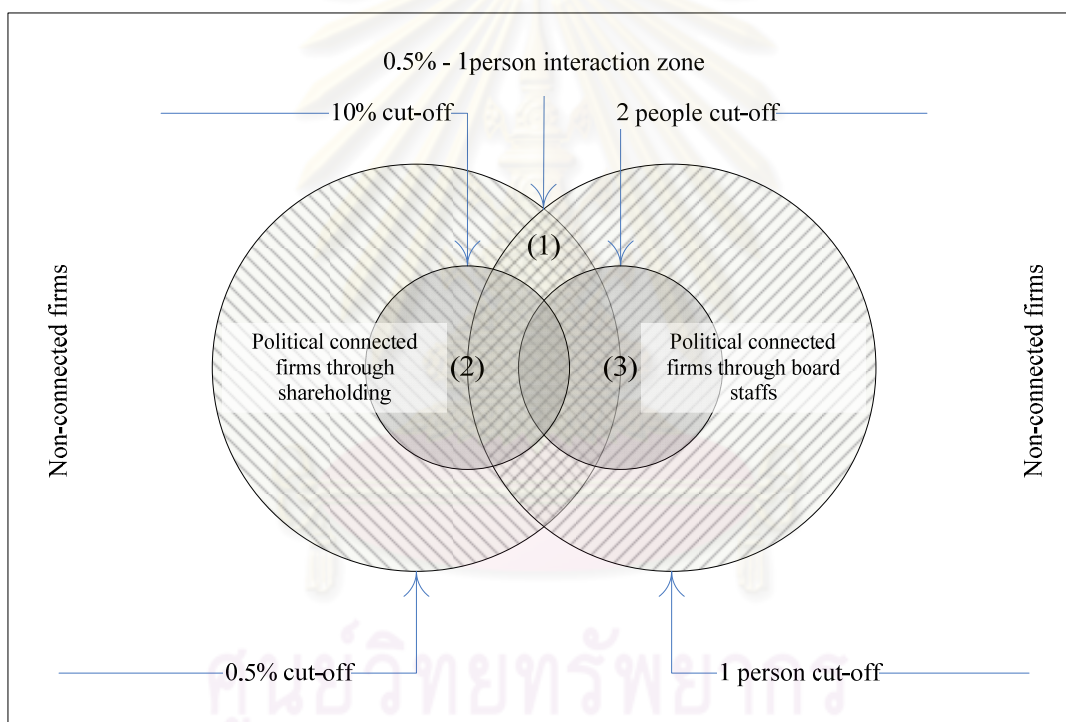


Figure 1: SH-BD Cooperation, the combination of the connections through shareholding and board of directors.

This figure presents how the politically connected firm is accounted through the “SH-BD Cooperation” method. The area (1) is the intersection of the samples of politically connected firms from the use of low cut-off in matching process (0.5% for shareholding meaning and 1 person for board staff meaning). The area (2) is the groups of politically connected firms matching through shareholding list and it utilizes the medium cut-off in matching process. And the area (3) is the groups of politically connected firms matching through board staff list and it utilizes the medium cut-off in matching process.

The Event study on the coup d'état

¹⁹ We also tested for the consistency when this type of definition is utilized in the regression on firms' performance and the results show the consistent evidences. This also supports the use of this definition in this part of the study. The regression results are shown in the Appendix E.

To investigate the effect on the quick loss of governmental power, the event study analysis on the impact of the 19th September 2006 coup on the stock returns of previously politically connected firms will be undertaken. The abnormal return and volume would be calculated during the coup d'état running from -4 to +4 week.

The study, examines the event study with CAPM-adjusted and 3-Factor adjusted method. Initially, the stock is classified into two groups; politically connected group and market which mean all stocks including the connected ones. Then the abnormal return and cumulative abnormal return of political group would be computed. Next, the differences from zero are tested on the abnormal and cumulative abnormal returns will be tested. As regarding to the first hypothesis, the result of the last step is expected to be significantly negative especially for the cabinet connected firms and firms connecting with the representatives who are in the coalition parties. This could be interpreted that the stock returns of the connected groups received higher negative impact from the coup than the market did. In the study on the impact of the coup d'état above, the definition of connection utilized is SH-BD Cooperation connection.

The impact of winning/losing an election

This sub-section is the supplementary event study. As the estimation done in the last section, “the impact of the coup d'état”, the same method to study how the victory and failing to win in national election affect the returns of each agents is used. The period of study is the national election on 2007 which Pheu Thai party (former TRT party) led by Samak Sundaravej won the election. Intuitively, it is expected that the cumulative abnormal returns of firms connecting with the coalition parties will significantly gain from the winning, while ones connecting with the opposition parties will significantly injure from their electoral loss.

4.4 Political connection, governance, and firm specific information

Corporate governance index construction

The corporate governance index provided by Eamsherangkoon (2009) is utilized. The author constructs Corporate Governance Index (CGI) based on the approach of Ananchotikul (2006). This index uses information of Thai listed companies from public

source, 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, to avoid bias from self-evaluated questionnaire. The acquired answers from 87 questions are grouped in to five governance components: 1) Board Structure 2) Conflict of Interest 3) Board Responsibilities 4) Shareholder Rights, and 5) Disclosure and Transparency. Scores are given to each of the governance items and taking a weighted average of the sub indexes to create CGI. As the result, CGI runs from 0 to 100 with higher values indicating better corporate governance.

The calculation of firm specific variation (idiosyncratic volatility)

In this study, we follow the calculation of firm specific information examined in the Ferreira and Laux (2007). They estimate the firm specific information by using the measure of firm's idiosyncratic volatility relative to the market-wide variation. However, the paper by Ferreira et al. (2007) using the daily return to estimate the idiosyncratic volatility in each month, these monthly data does not conform to the tests which relies on the annual data (such as the governance index, and other control variable). Hence, the calculation of idiosyncratic volatility is adjusted by using weekly return to estimate the yearly idiosyncratic variation instead, assuming fiscal year starting on 1st July each year. As in their paper, the market model is used in the estimation as shown as below:

$$R_{i,t} = \alpha_i + \beta_i \cdot R_{m,t} + \varepsilon_{i,t} \quad (5)$$

with $E(\varepsilon_{i,t}) = \text{COV}(R, \varepsilon_{i,t}) = 0$. $R_{i,t}$ 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 $\beta_i = \frac{\sigma_{im}}{\sigma_m^2}$, where $\sigma_{im} = \text{COV}(R_{i,t}, R_{m,t})$, $\sigma_m^2 = \text{Var}(R_{m,t})$ and $\sigma_i^2 = \text{Var}(R_{i,t})$. From this projection, idiosyncratic variance is defined as

$$\sigma_{ie}^2 = \sigma_i^2 - \frac{\sigma_{im}^2}{\sigma_m^2} \quad (6)$$

After the idiosyncratic volatility is computed, we standardize it by the total volatility, for each month. One reason to transform it into ratio is that firms in some industries are more sensitive to economy-wide shocks than others, and firm-specific events may be correspondingly more intense. As the method provided by Ferreira and Laux (2007), the equation to calculate the proxy of firm specific information is shown below:

$$\text{IDIO}_{it} = \ln \left(\frac{\sigma_{ie,t}^2}{\sigma_{i,t}^2 - \sigma_{ie,t}^2} \right) \quad (7)$$

where subscript i and t represent firm and year, respectively. IDIO is the proxy of firm specific information calculated by taking the natural log to the firm specific variation relative to market wide variation.

The probability of information-based Trading (PIN)

For the sake of thorough test of the information flow hypotheses, an alternative measurement of information flow is investigated. It is the probability of information-based trading (PIN) based on Easley et al. (1998). The analysis uses the information in trade data to estimate the probability of the occurrence of the information-based trading for individual stocks. The estimation of PIN in this study definitely follows such paper. Public information events may be able to directly affect prices but not to trade²⁰. Private information is the signal that is not publicly observable. It contains information about the future value of asset/firm; hence it affects price as well as trade. It will be assumed that the information event occurs prior the beginning of the day. It could be good news or bad news. Private information event which is independently distributed across days occurs with probability α . These information events are good news with the probability $1-\delta$ or bad news with probability δ . There are two types of traders in the market which are the informed traders who can observe the private information (and can use them in the trading) and the uninformed traders who know only the public information. Assumingly,

²⁰ “In effect, we define information events as public if they do not affect trading. Such events may cause price changes, but little or no trade should be generated by a truly public information event. To the extent that seemingly public information events affect trade, they have a private component (such as understanding how to use this information) and we classify them as private information events.” (Easley (1998), p.5)

the informed traders are risk neutral and competitive. They will exploit the good signal for buying stock and vice versa. On any day, arrivals of uninformed buyers and uninformed sellers are random variables which are determined by independent Poisson processes with arrival rate ϵ per day while the arrival rate of an informed trader is μ per day. Please note again that the arrival rate of informed-trader which causing from the occurrence of the good or bad information will be on only one side for a day: either buy or sell, while the arrival rate of the uninformed trader will be always on both sides.. To demonstrate, the figure 2 explains a possible outcome in each day.

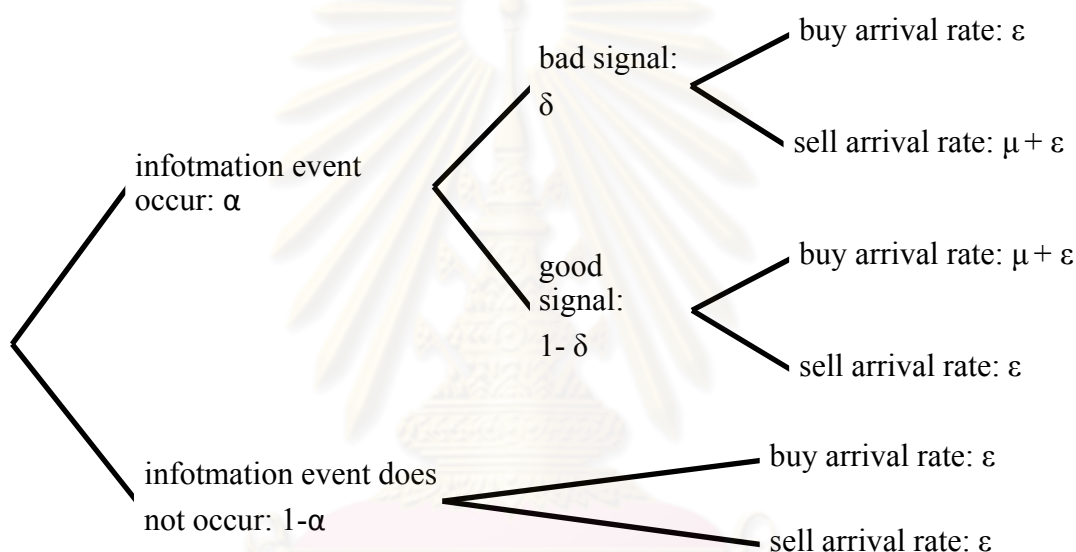


Figure 2: Three diagram of trading process.

α is the probability that an information event will occur. δ is the probability of bad signal. μ is the arrival rate of informed trades. And ϵ is the arrival rate of uninformed trades.

In the model, buy and sell will reflect the underlying information structure, more buys (arrival rate = $\mu + \epsilon$) in good events and more sells (arrival rate = $\mu + \epsilon$) in bad events and no inform traders in no event day (arrival rate = ϵ). While it is not known which process is operating on a day, these set of rates and probabilities are actually presented by this model which should weighs on three possible components, i.e. good news, bad news and no news, respectively, and will reflect their probability of occurrence in the data. Give B indicates the number of buyer-initiated trades for the day and S

indicate the number of seller-initiated trades for the day, the likelihood of observing B buys and S sells of firm i on day j of unknown type is shown as below²¹:

$$\begin{aligned}
L_i[B_{i,j}, S_{i,j} | \theta_i] = & (1 - \alpha_i) \left(e^{-\varepsilon_i T_{i,j}} \frac{(\varepsilon_i)^{B_{i,j}}}{B_{i,j}!} e^{-\varepsilon_i} \frac{(\varepsilon_i)^{S_{i,j}}}{S_{i,j}!} \right) \\
& + (\alpha_i \delta_i) \left(e^{-\varepsilon_i} \frac{(\varepsilon_i)^{B_{i,j}}}{B_{i,j}!} e^{-(\mu_i + \varepsilon_i)} \frac{[(\mu_i + \varepsilon_i)]^{S_{i,j}}}{S_{i,j}!} \right) \\
& + (\alpha_i (1 - \delta_i)) \left(e^{-(\mu_i + \varepsilon_i)} \frac{[(\mu_i + \varepsilon_i)]^{B_{i,j}}}{B_{i,j}!} e^{-\varepsilon_i} \frac{(\varepsilon_i)^{S_{i,j}}}{S_{i,j}!} \right) \quad (8)
\end{aligned}$$

Where ε_i is an arrival rate of uninformed traders for firm i , μ_i is an arrival rate of informed traders for firm i , $B_{i,j}$ is the number of investor buy order over day j . $S_{i,j}$ is the number of investor initiated sell order over day j . δ_i is a probability of information bad event is occur, α_i is a probability of occurring private information event, θ_i is the vector of parameters to be estimated ($\alpha_i, \delta_i, \varepsilon_{ik}, \mu_i$) for firm i . For any given day, δ and α can be either 0 or 1. Over multiple days, these parameters will be estimated from the daily numbers of buys and sells which derived from the intra-day data. In multiple period we estimate these parameters θ_i of firm i in each year by maximizing the joint likelihood over the J trading days in a calendar year. The formula is shown below:

$$L_i(M_i | \theta_i) = \prod_{j=1}^J L_i(B_{i,j}, S_{i,j} | \theta_i), \text{ which } M_i = (B_{i,j}, S_{i,j})_{j=1}^J \quad (9)$$

According to their meaning, the two probability parameters α and δ are restricted to $[0, 1]$ and two arrival rate parameters ε and μ were suppressed to $[0, \infty]$.

²¹ For the computerized reason, de facto, we transform the eq. (8) into the form that shown below,

$$\begin{aligned}
L_i[(B_{i,j}, S_{i,j}) / \theta_i] = & (-2 \times \varepsilon_i + M_{i,j} \log(X_i) + (B_{i,j} + S_{i,j}) \log(\mu_i + \varepsilon_i)) + \log \alpha_i (1 - \delta_i) e^{\mu_i X_i^{(S_{i,j} - M_{i,j})}} \\
& + (\delta_i \alpha_i) e^{\mu_i X_i^{(B_{i,j} - M_{i,j})}} + (1 - \alpha_i) X_i^{(B_{i,j} + S_{i,j} - M_{i,j})}
\end{aligned}$$

$$\begin{aligned}
\text{Define: } M_{i,j} = & (\min(B_{i,j}, S_{i,j}) + \max(B_{i,j}, S_{i,j})) / 2 \\
X_i = & \varepsilon_i / (\mu_i + \varepsilon_i)
\end{aligned}$$

By this form, the two probability parameters α and δ were restricted to $[0, 1]$ by a logit transform of unrestricted parameters, and the two rate parameters ε and μ were restricted to $[0, \infty]$ by a logarithmic transform.

The parameters of problem estimated from the equation above will determine the probability of information-based trading (PIN) in stock based on Easley et al. (1998) as the equation shown;

$$PIN = \frac{\alpha\mu}{\alpha\mu + 2\varepsilon} \quad (10)$$

The PIN variable is the weight of the private information based trading relative to the trading by uninformed traders. The numerator indicates the expected quantity of orders for a day which is composed of the occurrence of the information event times the information-based order arrival rate. The denominator is the total sum of the information based trade and the sell and buy trades for the non information event case. In the denominator, ε is multiplied by 2 because the uninformed assumingly come to the market on both buy and sell side with the same rate regardless there are good or bad or no news.

Political connection, corporate governance and firm specific variation

To investigate whether the firms' performance are affected by governance/information flow or political connection, the following regressions are estimated.

$$Performance_{j,t} = \alpha + \beta_1 \cdot REP_{j,t} + \beta_2 \cdot CAB_{j,t} + \beta_3 \cdot CGI_{j,t} + \beta_4 \cdot Info_{j,t} + \sum_{k=1}^n \gamma_k \cdot Control_{kj,t} \quad (11)$$

where $CGI_{i,t}$ is the governance index of firm i at the started year t . $Info_{i,t}$ is the firm specific information variable (which is surrogated by the idiosyncratic volatility and the probability of informed-base trading) of firm i at the stated year t . The observation period is from 2000 to 2007. According to the expertise provided by GIM (2003) and Ferreira et al. (2007), the coefficients of Corporate Governance Index and the firm specific information are expected to be significantly positive. This incident will be consistent with our anticipation which lead us to conclude that the firms which have better governance standard and information flow will outperform the firms with lower ones. This will allow us to reject the second null hypothesis.

CHAPTER V

EMPIRICAL RESULT

As in the methodology chapter, the result will be divided into two sections. The first is for the reinvestigation on the effects of political connections, which will be also divided into two sub-sections; the regression analysis on the performances and the study on the happening of 2007 coup. The second is for the study on the accounting performance of firms after supplementary control for the political connection, governance, and firm specific information.

5.1 A reexamination of the effects of political connections

Political connections and stock returns

Table 4 shows the regression result of Fama and French (1993) in which the three-factor model on politically connected portfolio is used. The direct connection definition is applied when the politically connected firms are found out. The table is separated into two panels, Panel A and Panel B, which present the results from using the shareholding and the board of director as the source of connection. When the whole period of this study (1999-2008) is covered, the portfolio of cabinet connected firms shows no sign of benefit received from political connection. Moreover, in Panel A, the constant term of the long-short portfolio presents significant -0.4% return. This indicates that the cabinet connected firms receive negative effect in term of alpha from their direct political connection through shareholding. The representative connected firms exhibit 0.1% abnormal returns for long-short portfolio when the board of director as the source of connection is used, however, the outcome is not considered significant. When the connection found through shareholding is utilized, the abnormal returns are not discovered.

When the period of study is divided into the Thaksin's regime (2001-2005) and non-Thaksin's regime (1999-2000 and 2007-2008), the result from the model shows some difference. Panel A, in Thaksin's regime, cabinet connected portfolio underperforms its matched firms with 0.7% abnormal return with 1% significant level while representative connected portfolio shows no sign of significant difference from its

matched portfolio. In non-Thaksin's regime, the political connections provide -0.4% abnormal return over their matched firm for cabinet connected, and 0.2% for representative connected portfolio. However, both of them are insignificant. Panel B, The cabinet connected firms earn insignificant -0.3% and -0.2% for Thaksin's and non-Thaksin's regime, respectively. The representative connected firms also get insignificant results with -0.1% abnormal returns and 0.3% abnormal returns in Thaksin's and non-Thaksin's regime, respectively.

The results obtained from this section indicate no evidence of abnormal return contributed from connection with politicians. It is also demonstrated that in the period of Thaksin's regime, cabinet connected firms, on average, underperforms its matched firms. In short, the result provided by this table does not reject our first null hypothesis.

Please note that the other definitions of political connection –Weakly Indirect Connection and Strongly Indirect Connection through shareholder, and through board of director - are also applied to the test for the whole period and the results shows the coherent evidence with the above.

Political connection and firm's performances

This sub-section presents estimates of the time-series cross-sectional firm-level regression with the yearly data over the period 1999-2008. The regressions report the result from running equation (2); the differences in each table are the used of the period, the definition of political connection and the classification of politicians.

Table 5, shows the estimation results when the whole period of the study is focused. The politicians are classified into cabinet members and representatives. In the table, Panel A show the results from using connected found through shareholding and Panel B demonstrate the results from using the board of director.

Table 4 Benefit of political connection tested by Fama-French 3 Factors (1993) model

This table presents the result of pooled regressions on weekly stock return by using Fama-French (1993) 3-Factor model. The period of study is from 1999 to 2008. The samples are divided into 4 groups which are cabinet connected firms, matched-cabinet connected firms, representative connected firms and matched-representative connected firms. The constant is generally known as abnormal return or *alpha*. The *alpha* from the returns difference between the politically connected firms and their matched firms are the indicator of benefit receives from political connection. RM-RF is weekly market return minus the overnight interbank rate. SMB (Small-minus-Big) is the average return on the three small portfolios minus the average return on the three big portfolios. And HML (High-minus-Low) is the average return on the two value portfolios minus the average return on the two growth portfolios.²² Robust standard errors are given in the parentheses. *, ** and *** indicate significance from zero at the 10%, 5% and 1% level, respectively. The table shows the estimation when applying definitions of direct connection established through shareholding and board of directors in Panel A and Panel B, respectively. The 10% cut-off is utilized in the results shown in Panel A and 2 persons cut-off is for Panel B. Each panel shows the estimate result of the whole period (1999 – 2008) and the estimated coefficient of the constant term when the sub periods are applied which are Thaksin's regime (2001 – 2005) and Non Thaksin's regime (1999 – 2000 and 2007 – 2008).

Panel A: Connection established through shareholding

	Buy and Hold Portfolio				Long-Short Portfolio	
	CAB	REP	Matched CAB	Matched REP	CAB-Matched	REP-Matched
Whole period						
<i>Constant</i>	-0.004*** (0.002)	0.001 (0.001)	-0.001 (0.002)	0.000 (0.001)	-0.004* (0.002)	0.000 (0.002)
<i>RM-RF</i>	1.201*** (0.057)	0.876*** (0.053)	1.068*** (0.056)	0.853*** (0.04)	0.134* (0.072)	0.024 (0.063)
<i>SMB</i>	0.555*** (0.087)	0.68*** (0.082)	0.724*** (0.086)	0.618*** (0.062)	-0.168 (0.112)	0.063 (0.098)
<i>HML</i>	-0.302*** (0.083)	0.164** (0.078)	0.276*** (0.082)	0.039 (0.059)	-0.577*** (0.106)	0.126 (0.093)
<i>R²</i>	55.31%	36.67%	47.82%	48.71%	11.67%	0.60%
Thaksin's and non Thaksin's regime						
<i>Thaksin's Regime</i>	-0.004*** (0.001)	-0.001 (0.001)	0.002* (0.001)	-0.001 (0.001)	-0.007*** (0.002)	-0.001 (0.001)
<i>R²</i>	71.97%	61.92%	45.96%	75.16%	34.64%	5.11%
<i>Non-Thaksin's Regime</i>	-0.007* (0.004)	0.003 (0.003)	-0.003 (0.004)	0.000 (0.002)	-0.004 (0.005)	0.002 (0.004)
<i>R²</i>	46.00%	31.33%	55.99%	38.13%	12.83%	0.44%

²² The definition of SMB and HML are literally from Kenneth R. French's website; <http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/>

Table 4 Benefit of political connection tested by Fama-French 3 Factors (1993) model – (continue)

Panel B: Connection established through board of directors

	Buy and Hold Portfolio				Long-Short Portfolio	
	CAB	REP	Matched CAB	Matched REP	CAB-Matched	REP-Matched
Whole period						
<i>Constant</i>	-0.003* (0.001)	0.000 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.002 (0.002)	0.001 (0.001)
<i>RM-RF</i>	1.031*** (0.052)	0.992*** (0.036)	1.079*** (0.052)	0.922*** (0.03)	-0.047 (0.069)	0.071 (0.046)
<i>SMB</i>	0.699*** (0.082)	0.831*** (0.057)	0.935*** (0.081)	0.665*** (0.046)	-0.235** (0.108)	0.167** (0.072)
<i>HML</i>	-0.182** (0.078)	0.179*** (0.054)	0.276*** (0.077)	0.153*** (0.044)	-0.457*** (0.103)	0.028 (0.068)
R ²	44.78%	60.60%	47.48%	66.77%	6.55%	1.30%
Thaksin's and non Thaksin's regime						
<i>Thaksin's Regime</i>	-0.002 (0.002)	-0.001 (0.001)	0.000 (0.002)	0.000 (0.001)	-0.003 (0.003)	-0.001 (0.001)
R ²	51.98%	71.39%	49.23%	76.42%	5.30%	0.98%
<i>Non-Thaksin's Regime</i>	-0.004 (0.003)	0.001 (0.002)	-0.002 (0.002)	-0.003* (0.002)	-0.002 (0.003)	0.003 (0.003)
R ²	39.40%	56.91%	49.66%	60.91%	10.52%	5.53%

This reinvestigation of firm performances starts from using the most general definition of political connection which is direct connection through shareholding with 10% cut-off²³. In Panel A, The results of using the Tobin's Q ratio, ROA and ROE as the dependent variables are reported in the column (4), (5) and (6), serially. In the column (4), the estimate for the influence of *CAB Connected* on Tobin's Q ratio is 0.538 and it is highly significant. For *REP Connected* dummy, its estimate shows negative 0.063 which is significant at 10% level too. In the column (5) and (6), our results remain stable. The coefficient of *CAB Connected* is still positive and significant at 5% and 10% respectively. However, the estimates of REP connected in these two columns show no sign of statistical significance. For other control variables, the estimated results present the consistence to the basic intuition on *Revenue/Total Asset* and *DE Ratio* which are

²³ The 10% cut-off point is generally used in the research on political connection as stated in the footnote number 17.

significant positive and negative, respectively. Nevertheless, the coefficients of Size and $\ln(\text{Asset})$ display somewhat mixed sign between different dependent variables.

Panel B also demonstrates a test by using the connection through board of director with two people cut-off as the alternative definition. The result from this alternative definition is consistent with the former. The estimates of *CAB Connected* are all positive, although ones of column (5) and (6) – (ROA and ROE) – are not statistically significant. For *REP Connected*, its estimated coefficients show negative signs for the Tobin's Q and ROA column, as the latter is also significant at 1% level.

The evidences shown from column (4), (5) and (6) in Table 5 consistently indicate two points. First, on average, the connections with cabinet members are able to bolster the accounting performances of the firms. Second, representatives provide no significant supports to their connected firms, moreover, in some cases; to connect with them could negatively affect the performances of the firms.

In Table 5, we also lower and higher the different cut-off points in the judgment of politically connected firms, the resulted obtained are still consistent with the use of the original cut-off, especially for the connection found through shareholding. Table 5 demonstrates that the ownership concentration of politically connected shareholding can also be a factor determining the benefit received from the connection. As seen in Table 5, the size of benefits that firms receive from cabinet connection is higher when percentage of total shares held by their families are more concentrated, or the positions in board rooms are added. This evidence could be interpreted as the difference in incentive driven – while holding a small fraction of shares in a firm (or sitting a position in board staff) could be marked as the connection signal or burden between politician's families and the bigger owners of the firms, to hold a large fraction of share or to take more seats in the board in another firm could be seen as the family business of politicians, especially for very high percentage like 20% or above.

Table 5 The political connection and the performances of the firms

The dependent variables reported in this table are Tobin's Q ratio, ROA and ROE of firms in each year t. Sample period is 1999-2008. DE ratio is divided by 1000 to reduce the decimal points of coefficients. The accounting - independent variables (*Size* (natural log of total asset), *Revenue/Total Asset*, *DE Ratio*, *Ln (Age in Month)* (natural log of monthly age of firms)) are measured at year t-1. Industry classification follows SET standard. State-owned enterprise equals to 1 if 20% or more of shares of the firm is held by government who is also the biggest shareholder for the year. *CAB Connected* and *REP Connected* are dummy variables which equal to 1 if the firm is considered as the cabinet connected firm for the first one and representative connected firm for another, 0 otherwise. The connections are found through shareholding in Panel A and through board of director in Panel B. The direct connection definition is used for matching the political connection. The regressions utilize the OLS method. Robust standard errors are given in the parentheses. *, **, and *** indicate significance at the 10%, 5% and 1% level, respectively. The first three columns are the estimated result of using 0.5% shareholding cut-off for Panel A and 1 person cut-off for Panel B in the process of the judgment on political connection, while the next three and last three in Panel A (Panel B) are ones of using 10% (2 persons) and 20% (3 persons) cut-off, respectively.

Panel A: Connection established through shareholding

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Tobin's Q	ROA	ROE	Tobin's Q	ROA	ROE	Tobin's Q	ROA	ROE
	≥0.5% shareholding			≥10% shareholding			≥20% shareholding		
<i>Constant</i>	1.577*** (0.543)	-0.087 (0.169)	-1.111 (2.657)	1.624*** (0.566)	-0.085 (0.170)	-1.093 (2.708)	1.629*** (0.565)	-0.085 (0.170)	-1.104 (2.710)
<i>CAB Connected</i>	0.225*** (0.067)	0.023** (0.011)	0.347 (0.779)	0.538*** (0.204)	0.037** (0.017)	1.120* (0.638)	0.694*** (0.239)	0.040** (0.02)	1.188* (0.669)
<i>REP Connected</i>	-0.058*** (0.017)	0.025 (0.020)	0.672 (0.565)	-0.063* (0.032)	-0.013 (0.018)	0.587 (0.522)	-0.019 (0.042)	-0.023 (0.016)	0.950 (0.833)
<i>Size</i>	0.027 (0.021)	0.001 (0.010)	-0.048 (0.094)	0.021 (0.024)	0.000 (0.010)	-0.061 (0.0930)	0.021 (0.024)	0.000 (0.010)	-0.064 (0.092)
<i>Revenue/Total Assets</i>	0.067*** (0.017)	0.037*** (0.012)	0.444 (0.355)	0.073*** (0.019)	0.037*** (0.012)	0.447 (0.356)	0.075*** (0.02)	0.037*** (0.012)	0.450 (0.359)
<i>DE Ratio</i>	0.001 (0.002)	-0.002*** (0.000)	-0.034 (0.045)	0.000 (0.000)	-0.002*** (0.000)	-0.035*** (0.045)	0.000 (0.001)	-0.002*** (0.000)	-0.035 (0.045)
<i>Ln(Age in month)</i>	-0.103*** (0.026)	0.001 (0.006)	0.243 (0.255)	-0.101*** (0.024)	0.003 (0.005)	0.283 (0.291)	-0.101*** (0.025)	0.003 (0.005)	0.291 (0.297)
<i>State-owned Enterprise</i>	-0.005 (0.052)	0.036 (0.028)	0.353 (0.232)	0.018 (0.06)	0.018 (0.028)	0.309 (0.274)	0.020 (0.06)	0.037 (0.028)	0.281 (0.296)
<i>Industry-Year Dummies</i>	YES	YES	YES	YES	YES	YES	YES	YES	YES
R ²	15.82%	2.24%	0.94%	16.07%	2.19%	0.92%	16.41%	2.19%	0.93%
Observation	3074	3492	3230	3074	3492	3230	3074	3492	3230

Panel B: Connection established through board of director

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Tobin's Q	ROA	ROE	Tobin's Q	ROA	ROE	Tobin's Q	ROA	ROE
	≥1 person			≥2 persons			≥3 persons		
<i>Constant</i>	1.561*** 0.544	-0.103 0.163	-0.722 (2.347)	1.544*** (0.553)	-0.096 (0.166)	-1.020 (2.554)	1.573*** (0.557)	-0.090 (0.167)	-0.992 (2.556)
<i>CAB Connected</i>	0.052 (0.04)	0.000 (0.024)	0.701 (0.469)	0.339** (0.143)	0.018 (0.013)	0.766 (0.505)	1.335*** (0.356)	0.050** (0.021)	0.777 (0.511)
<i>REP Connected</i>	0.013 (0.039)	-0.033** (0.013)	0.780 (0.724)	-0.038 (0.049)	-0.023*** (0.007)	0.536 (0.638)	-0.138 (0.085)	-0.004 (0.008)	1.047 (0.874)
<i>Size</i>	0.028 (0.02)	0.001 (0.01)	-0.076 (0.081)	0.029 (0.02)	0.001 (0.01)	-0.063 (0.088)	0.026 (0.02)	0.001 (0.01)	-0.059 (0.091)
<i>Revenue/Total Assets</i>	0.067*** (0.016)	0.036*** (0.012)	0.428 (0.34)	0.064*** (0.015)	0.036*** (0.012)	0.429 (0.345)	0.065*** (0.016)	0.036*** (0.012)	0.433 (0.344)
<i>DE Ratio</i>	0.002 (0.002)	-0.002*** (0.000)	-0.033 (0.043)	0.002 (0.002)	-0.002*** (0.000)	-0.034 (0.044)	0.002 (0.002)	-0.002*** (0.000)	-0.034 (0.044)
<i>Ln(Age in month)</i>	-0.107*** (0.027)	0.005 (0.005)	0.241 (0.256)	-0.104*** (0.028)	0.004 (0.005)	0.277 (0.279)	-0.103*** (0.028)	0.003 (0.005)	0.259 (0.268)
<i>State-owned Enterprise</i>	-0.016 (0.052)	0.034 (0.028)	0.217 (0.307)	-0.024 (0.054)	0.033 (0.026)	0.272 (0.277)	-0.013 (0.05)	0.034 (0.027)	0.258 (0.302)
<i>Industry-Year Dummies</i>	YES	YES	YES	YES	YES	YES	YES	YES	YES
R ²	15.30%	2.27%	0.96%	16.07%	2.19%	0.92%	16.82%	2.18%	0.92%
Observation	3074	3492	3230	3074	3492	3230	3074	3492	3230

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Imai (2006) and Bunkanwanicha et al. (2008) are the preceding researches studying on political connection in the period of Thaksin's government (2001-2005 and 2001-2004 respectively). The results from these two researches point out that the benefits from political connection, especially cabinet connection are obvious. Table 6 shows us the results from reinvestigating this argument.²⁴ Remarkably, in 2001-2005, as it well coheres with the evidence of Imai (2006), the cabinet members contributed the considerably bigger and stronger significant outperformance to their connected firms comparing with the whole period of our study. These evidences are consistent with the preceding papers. The study of Thanee Chaiwat (2006) also conforms to and helps to explain in our finding. In the work of Mr. Chaiwat, he state that the growth rate of asset and earning of the firms connecting with the cabinet member in 2001 to 2003 are higher than the average of their peers which he interprets it as the benefit from the economic rent. Moreover, Thanee Chaiwat also proposes that there is a change in the flow of resource since 2001. Such change is explained that these big businesspeople play the role that affecting the policy making and control. In the past, big businesspeople are in the out-of-circle of political power and they seem to enjoy the benefit from their indirect connection that they establish by financially supporting the politicians and political parties. But since 2001, the big business people have played the crucial role in shaping the development direction of the nation; which makes them more politically powerful and able to totally controls the prospect of the rents as well.

Similarly to the whole period, the firms connected with representatives in Thaksin's period earn highly significant depressing effect when Tobin's Q is focused for Panel A and ROA for Panel B. On the other hand, the out of Thaksin's era gives the diverse result. In Panel A, *CAB Connected* dummies indicate the weaker allegation to politicians as the coefficients show significantly negative number and insignificantly positive number as Tobin's Q ratio and ROE are regressed, respectively. However, when the ROA is regressed, the coefficient of *CAB Connected* gives the significantly positive number. Panel B also provides the results leading to the same interpretation. Hence, the

²⁴ The study period is 2001 to 2005 which exclude the last year of Thaksin' regime, the year of political instability triggering by the selling most, if not all, shares Thaksin and his family held in Shin Corporation Public Co., Ltd. to Temasek, the sovereign fund of Singapore. This transaction is the key bringing to the public furor on Thaksin and his government, the big demonstration leading by PAD, and lastly the coup on 19 September 2006.

different results from using three different dependent variables lead us to the lower the degree of the allegation on cabinet members in this period.

Because the small sample size (<30) of CAB Connected firms in non-Thaksin's regime might lead to unreliable estimates, the tests by lowering the cut-off point to 0.5% is also made. The result is still consistent with the above, even though there is some decrease in its size and strength. The coefficients estimated of *CAB Connected* in Thaksin's regime are larger than the whole period; anyway only two coefficients regressing with Tobin's Q and ROA are significant. The coefficients of the *CAB Connected* in non-Thaksin's regime show significantly positive sign when regressing with ROA and insignificantly negative when the Tobin's Q and ROE are regressed with. For representative connected firms, it seems like that in both regimes, they cannot clearly earn the positive effect from their political connection. Moreover, they seem to be rather hurt as found in Table 6.

In short, Table 6 presents the outcome that under Thaksin's regime, the cabinet connected firms earns greater and more obvious benefits than non-Thaksin's regime.

Table 6 The political connection and the performances of the firms – Thaksin's regime and non-Thaksin's regime

The dependent variables reported in this table are Tobin's Q ratio, ROA and ROE of firms in each year t . Sample period is 1999-2008. The independent variables used are the same as they are fully shown in Table 5. *CAB Connected* and *REP Connected* are dummy variables which equal to 1 if the firm is considered as the cabinet direct connected firm for the first one and representative direct connected firm for another, 0 otherwise. In Panel A, the connections are found through shareholding and in Panel B the connection are found through board of director. The direct connection definition used for matching the political connection and 10% or 2 people cut-off point are applied to the political connection judgment. The regressions utilize the OLS method. Robust standard errors are given in the parentheses. *, **, and *** indicate significance at the 10%, 5% and 1% level, respectively. As one can see, each reported panel is separated into two parts. The first part displays the coefficients of *CAB Connected* and *REP Connected* when the regression covers the period of Thaksin's regime (2001-2005). And another report the coefficient of the political connection dummies as the model is regressed by using the period of non-Thaksin's regime (1999-2000 and 2007-2008).

Panel A: Connection established through shareholding

		Tobin's Q	ROA	ROE
Thaksin's Regime (2001-2005)	<i>CAB Connected</i>	0.885*** (0.233)	0.063** (0.026)	1.732** (0.834)
	<i>REP Connected</i>	-0.090*** (0.028)	-0.020 (0.027)	0.715 (0.638)
	R ²	21.95%	2.10%	1.35%
	Observation	1556	1820	1670
	<i>CAB Connected</i>	-0.195*** (0.45)	0.052** (0.025)	0.182 (0.457)
Non-Thaksin's Regime (1999-2000 & 2007 -2008)	<i>REP Connected</i>	-0.095*** (0.019)	0.020 (0.013)	0.147 (0.097)
	R ²	13.31%	7.60%	2.32%
	Observation	1140	1255	1163

Panel B: Connection established through board of director

		Tobin's Q	ROA	ROE
Thaksin's Regime (2001-2005)	<i>CAB Connected</i>	0.557*** (0.137)	0.008 (0.023)	0.967 (0.604)
	<i>REP Connected</i>	-0.034 (0.068)	-0.032*** (0.005)	0.81 (0.723)
	R ²	20.01%	2.09%	1.34%
	Observation	1556	1820	1670
	<i>CAB Connected</i>	-0.215*** (0.078)	0.007 (0.03)	0.167 (0.141)
Non-Thaksin's Regime (1999-2000 & 2007 -2008)	<i>REP Connected</i>	-0.117 (0.092)	0.012 (0.009)	-0.688 (0.569)
	R ²	13.37%	7.58%	2.52%
	Observation	1140	1255	1163

Table 7 displays the regression results when the definition of political connection used in two tables above are loosen. In this table the political connection definition turns from merely direct connection to direct or strongly indirect and direct or indirect connection. By doing this, it is possible to investigate how the change will be when the firms of politicians' relative, friends and conglomerates are included in the sample. This table also reports the estimates by separating period into the whole period (1999-2008), Thaksin's regime (2001-2005) and non-Thaksin's regime (1999-2000 and 2007-2008). The first part, the result from the whole period of this study, will be dealt with first.

Panel B represents the use of board of directors as the source of connection. The estimated results in the first part of panel B seem consistent with one from the direct connection meaning. Interestingly, the coefficients of *CAB Connected* are not all clear lower when the loosen definitions of political connection are applied, still, for column 2, 4, 5, and 6 the coefficient of *CAB Connected* become statistically significant (while it is not significant in the direct definition). These evidences support the usage of indirect connection in the sample.

There is another point that deserves consideration. Although the terms used to describe the indirect connection are classified into strongly and weakly indirect connection, the reality seems not to be coherent with our set terms. As it is shown in Table 7, the coefficient of *CAB Connected* from using the direct and strong indirect connection definition do not persistently bigger and stronger significant than ones from using direct and indirect connection definition (which include the firms considered as weakly indirect connected with cabinet members into the samples). This evidence shows that the beneficiaries from political connections do not solely cluster around the family of politicians and their spouse, but also including the conglomerate and the friends of them. Another model which breaks up the connection types into 6 dummies – [CAB, REP]x[Direct, Strongly Indirect, Weakly Indirect] also applies. For the cabinet connected firms, the results from using the definition of connection through shareholding show that the strongly indirect connection does not significantly be found to contribute the outperformance to the firms. Contrarily, the weakly indirect connection shows the evidences of benefit received with positive and 5% significant numbers when Tobin's Q

and ROE are regressed. When the connection through board membership angle is viewed, dissimilar evidence appears. This time, the strongly indirect connection present supports the performance of the firm in term of ROA (10% significant level) and ROE (5% significant level) while the weakly indirect connection provides a low significant evidence in respect of ROE. In the case of connection through shareholding, this finding emphasizes the observation in the above paragraph again. In reality, the real strength of the connection created between these people might not follow their literally meanings - (strongly and weakly, in-low relative and business conglomerates).

Concisely, the first part of Table 7, both in Panel A and B, shows us that when the loosen definitions are utilized; the evidences of benefits received from cabinet political connections still persist. As the shareholding are the source of connection matching, employing this loosen definitions cause the lower and weaker amount in estimated result. As the board of director are the source of connection matching, using this loosen definitions generate clearer evidences of exploiting political connections. When each type of connection (direct connection, strong indirect connection and weak indirect connection) is separately analyzed, the strong and weak indirect connection can both contribute the outperformance as well.

In Table 6, the result shows that the benefits received from political connections seem stronger in the period of Thaksin's regime when the direct connection definition is applied to the matching procedure. In Table 7, we also reinvestigate that finding but with the use of the loosen definition. In Panel A, the first three columns show that when the strongly indirect connection is added to the definition of connection, the results are still similar one in Table 6 which utilizes the direct definition only. The firms connected with cabinet members in Thaksin's regime seem to earn more significant benefits than ones in the non-Thaksin's period. For the estimates of *REP Connected*, there are some changes in the period of non-Thaksin's regime. Not only the coefficients regressed with Tobin's Q shows deduction in its significant level (from 1% to 10%) but also ones regressed with ROA and ROE also turn to be significantly positive.

In the last three column of Panel A which the direct and indirect connection definition are utilized in matching procedure, firms considered as connected with cabinet members in Thaksin's regime no longer clearly overcome ones in non-Thaksin's regime.

While the estimates for *CAB Connected* in Thaksin's period still remain high and significant, ones out-of-Thaksin's period seem to rise in both amounts and significances – the coefficient of *CAB Connected* running with Tobin's Ratio turns to be positive and ones running with ROA and ROE become positive at highly significant level. Looking at the coefficients of *REP Connected*, there are still more satisfactory to have the indirect connection with the representatives in the period of non-Thaksin's regime. Even though the connected firms still perform badly in term of Tobin's Q ratio, they make a better job when the ROA and ROE are focused. The evidence indicating that, in non-Thaksin's regime, the indirect connection with politicians could be relevant to the outperformance of the firms coheres with the idea of Chaiwat (2006). Thanee Chaiwat suggests that before the rising of Thaksin in 2001, the business people managed to influence the government operation and policy either by having the close-relationship with the political figures or by establishing their nominees in the political parties²⁵. And it seems that these forms of relationship refamiliarized in the period after Thaksin's regime as well.

When the connection through board of directors is applied with 2 people cut-off, there is a noteworthy point to share. This time, using the alternative definition does not provide the clearly consistent evidence with one through shareholding. The benefits received from *CAB* connection in Thaksin's period are stronger than non-Thaksin's period as it is in Table 6 (which direct connection definition is utilized). The firms considered as connected with representative provide the different results when the different definitions of political connections are applied. The result from the use of direct or strongly indirect connection definition tell us that, in term of ROA, the representative connected firms have highly significant positive effect from their connection while the result from using direct and indirect definition do not illustrate the apparent benefits gained from their political connections. In the other hand, it is shown that they get hurt

²⁵ He calls the first way as the vertical relationship which the link between the politicians and business units is established through the patronage system – The business sectors will not directly join in the political arena but struggle to resort to these politicians and encourage them to assure that their business will receive the protections and supports from the government. The second way is horizontal relationship. In this relationship, the business groups will send the agents into the political parties; some of them hold the important position in the parties. If those political parties have an opportunity to set up the government, the agents may have a chance to be the cabinet members controlling the ministry that relate to their business benefit.

from connecting with these representatives, in term of Tobin's Q ratio. This latter evidence also coheres with one in Table 6.

Although it is mostly found that the connections with representatives supply somewhat underperformances, it is still intuitively sensible to expect that this negative effect comes from the representatives who are on the opposition side. Surprisingly, it is denoted in Table 8 that when the Tobin's Q is regressed, the coefficients estimated demonstrates the highly significant evidence of negative effect from connecting with representatives from coalition parties and, still, low significant evidence of positive effect contributed from the representatives from opposition parties. The evidence is re-emphasized when we utilize the connection through board staff, because the coefficient of *REP_GOV Directed* is highly significant and significant negative when Tobin's Q ratio and ROA are regressed.

Conclusively, this sub-section contributes six insights to the study. First, the benefits from the connection with cabinet members do exist as it was indicated by Imai (2006) and Bunkanawitcha et al. (2008). Second, the percentage of shares held by cabinet connected people and number of connected boards in the firms are positively related with the outperformance contributed by political connection. Third, the evidence of benefits received seems to be stronger in the period of Thaksin's regime. Fourth, when the loosen definitions of connection are utilized, the size and the strength of the coefficients estimated are affected. Fifth, by and large, the results from using the shareholding and the board of directors (at the same level cut-off) as the sources of political connections are quite consistent. Anyway, the use of shareholding as the source of political connection seems to provide stronger evidences, particularly when Tobin's Q ratio is regressed with. Lastly, connections established through the representatives who in the coalition parties does not seem to contribute any performances, In some cases, by contrast, it provides the underperformance.

Table 7 The political connection and the performances of the firms – loosen definition of political connection & separate regime

The dependent variables reported in this table are Tobin's Q ratio, ROA and ROE of firms in each year t. Sample period is 1999-2008. The independent variables used are the same as they are fully shown in Table 5. *CAB Connected* and *REP Connected* are dummy variables which equal to 1 if the firm is considered as cabinet connected firm for the first one and representative connected firm for another, 0 otherwise. The reported tables are separated into two panels. Panel A displays the coefficients of *CAB Connected* and *REP Connected* when the political connections are established through shareholding and Panel B exhibits ones when the political connections are established through board of director. The direct or strongly indirect connection definition used for matching the political connection is applied to the first three columns and the direct or indirect connection definition is applied to the last three. 10% cut-off point and 2 people cut-off are applied to the political connection judgment through shareholding and through the board of director, respectively. The regressions utilize the OLS method. Robust standard errors are given in the parentheses. *, **, and *** indicate significance at the 10%, 5% and 1% level, respectively. Each panel is separated into three parts. The first part displays the coefficients of *CAB Connected* and *REP Connected* when the regression covers the whole period of our study(1999-2008), while the second exhibits ones of the period of Thaksin's regime (2001-2005) and the last part exhibits one of non-Thaksin's regime (1999-2000 and 2007-2008).

Panel A: Connection established through shareholding

		(1)	(2)	(3)	(4)	(5)	(6)
		Tobin's Q	ROA	ROE	Tobin's Q	ROA	ROE
		Direct & Strongly Indirect Connection			Direct & Indirect Connection		
Whole Period (1999-2008)	<i>CAB Connected</i>	0.419*** (0.15)	0.014 (0.011)	0.800* (0.474)	0.311*** (0.091)	0.020 (0.014)	0.916* (0.515)
	<i>REP Connected</i>	-0.093*** (0.028)	-0.004 (0.013)	0.647 (0.536)	-0.014 (0.028)	-0.018 (0.017)	0.765 (0.573)
	R ²	16.00%	2.18%	0.93%	15.88%	2.20%	0.94%
	Observation	3074	3492	3230	3074	3492	3230
Thaksin's Regime (2001-2005)	<i>CAB Connected</i>	0.659*** (0.167)	0.027* (0.015)	1.093* (0.581)	0.386*** (0.125)	0.025*** (0.009)	1.283* (0.712)
	<i>REP Connected</i>	-0.123*** (0.023)	-0.007 (0.023)	0.806 (0.656)	-0.006 (0.034)	0.014 (0.02)	0.919 (0.737)
	R ²	21.48%	7.60%	1.34%	20.39%	2.08%	1.36%
	Observation	1556	1820	1670	1556	1820	1670
Non-Thaksin's Regime (1999-2000 & 2007 - 2008)	<i>CAB Connected</i>	-0.202*** (0.05)	0.018 (0.043)	0.257 (0.425)	0.168 (0.145)	0.057*** (0.011)	0.462*** (0.143)
	<i>REP Connected</i>	-0.087* (0.045)	0.025** (0.01)	0.176*** (0.051)	-0.087*** (0.033)	0.082** (0.037)	0.291*** (0.073)
	R ²	13.33%	2.07%	2.33%	13.41%	7.92%	2.42%
	Observation	1140	1255	1163	1140	1255	1163

Panel B: Connection established through board of director

		(1)	(2)	(3)	(4)	(5)	(6)
		Tobin's Q	ROA	ROE	Tobin's Q	ROA	ROE
		Direct & Strongly Indirect Connection			Direct & Indirect Connection		
Whole Period (1999-2008)	<i>CAB Connected</i>	0.205** (0.097)	0.022* (0.013)	0.640* (0.369)	0.108* (0.065)	0.012** (0.005)	0.780* (0.467)
	<i>REP Connected</i>	-0.046 (0.033)	-0.012 (0.011)	0.676 (0.666)	-0.069** (0.027)	-0.033* (0.017)	0.789 (0.747)
	R ² Observation	15.44% 3074	2.19% 3492	0.93% 3230	15.45% 3074	2.24% 3492	0.95% 3230
Thaksin's Regime (2001-2005)	<i>CAB Connected</i>	0.398*** (0.088)	0.006 (0.025)	0.77 (0.507)	0.157*** (0.046)	0.012 (0.012)	1.207* (0.709)
	<i>REP Connected</i>	-0.055 (0.042)	-0.032*** (0.012)	1.021 (0.894)	-0.095*** (0.031)	-0.023* (0.014)	1.22 (1.088)
	R ² Observation	19.87% 1556	2.10% 1820	1.35% 1670	19.73% 1556	2.09% 1820	1.38% 1670
Non-Thaksin's Regime (1999-2000 & 2007 - 2008)	<i>CAB Connected</i>	-0.173*** (0.032)	0.014 (0.025)	0.312* (0.184)	-0.109** (0.047)	-0.001 (0.009)	0.244** (0.095)
	<i>REP Connected</i>	-0.036 (0.044)	0.035*** (0.011)	-0.272 (0.375)	-0.057** (0.027)	-0.088 (0.061)	-0.192 (0.334)
	R ² Observation	13.33% 1140	7.64% 1255	2.39% 1163	13.33% 1140	8.06% 1255	2.37% 1163

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Table 8 The political connection and the performances of the firms – representatives of coalition and opposition parties

The dependent variables reported in this table are Tobin's Q ratio, ROA and ROE of firms in each year t . Sample period is 1999-2008. The independent variables used are the same as they are fully shown in Table 4. *CAB Connected*, *REP_GOV Connected*, and *REP_OPP Connected* are dummy variables which equal to 1 if the firm is considered as the cabinet direct connected firm for the first one, representative direct connected firm which the representative(s) it connects with is in the coalition party for the next one and representative direct connected firm which the representative(s) it connects with is in the opposition party for the rest, 0 otherwise. The reported tables are separated into two panels. Panel A displays the estimates when the political connections are established through shareholding and Panel B exhibits ones when the political connections are established through board of director. The direct connection definition used for matching the political connection and 10% cut-off point for Panel A and 2 people cut-off point for Panel B are applied to the political connection judgment. The regressions utilize the OLS method. Robust standard errors are given in the parentheses. *, **, and *** indicate significance at the 10%, 5% and 1% level, respectively.

Panel A: Connection established through shareholding

	Tobin's Q	ROA	ROE
<i>CAB Connected</i>	0.535*** (0.204)	0.037** (0.017)	1.124* (0.641)
<i>REP_GOV Connected</i>	-0.218*** (0.033)	0.012 (0.015)	0.855 (0.768)
<i>REP_OPP Connected</i>	0.081* (0.049)	-0.030 (0.028)	0.354 (0.361)
R ²	16.21%	2.20%	0.93%
Observation	3074	3492	3230

Panel B: Connection established through board of director

	Tobin's Q	ROA	ROE
<i>CAB Connected</i>	0.336** (0.142)	0.019 (0.013)	0.763 (0.487)
<i>REP_GOV Connected</i>	-0.26*** (0.045)	-0.036** (0.017)	0.825 (0.733)
<i>REP_OPP Connected</i>	0.199 (0.152)	0.007 (0.014)	0.654 (0.486)
R ²	15.98%	2.20%	0.93%
Observation	3074	3492	3230

5.2 The coup study

Impact of the coup d'état

The coup in 2006 is a good material for studying the impact of sudden acquisition and loss of power by using military force. To study on the side which gains the power, in Table 9 regression analysis is conducted by using the buy-and-hold abnormal returns (BHARs) as the dependent variable. BHARs are focused on 1-year BHARs prior the coup, 6-month, 1-year and 2 year after the coup. Table 9 is divided into two panels which

presenting the results from using the direct connection definition as the political connection definition in Panel A and direct or strongly indirect definition in Panel B. The panel using the direct or indirect connection definition is not herein exhibited because the politically connected firms sample are the same as done in panel B – there is no firms considered as weakly indirect connects with politicians in year 2007. Due to the small sample size of politically connected firms in year 2007, this study will use only one political dummy indicating the firms considered as connect with both cabinet members and representatives of that year. This is sensible because these people similarly come from the mandate of the military who arrange s the coup. Interestingly, the results shown in Table 9 show no benefit received from the coup for politically connected firms of 2007 comparing with the significant positive returns contributed from the connection when 1-year prior BHARs is estimated. Moreover, the coefficient estimated presents the significant negative amounts implying the stock returns of the firms connects with military juntas, on average, underperform after the coup was broken out. This evidence persists and becomes greater and stronger even the time goes by from six-month to one-year and from one-year to two-year. Anyway the prediction power of the model is highest in the short-run. In Panel A, after control for several factors, it is shown in the regression that the firms connected with cabinet members from the coup earns 15.3%, 32.5% and 54.8% negative returns after the coup.

It is worth to note that the same models are run by using the more lenient definition of political connection which is strongly indirect connection in Panel B. The results we obtain share the similar evidence. Yet for the 6-month BHARs after the election period, the coefficient of *CAB Connected* becomes significant.

The finding from this table demonstrates a contrast to the finding illustrated in Bunkanawitcha et al. (2008) which focus on the first regime of Thaksin Shinawatra's government. The paper shows the evidence of exploitive garner from the uprising in political power after a year passed by. However, the natures of the two regimes are different and this might be a reason of diverse evidence. There are four reasons to support this argument. First, it is the difference of the incentive to exploit through policy. The cabinet members in the period of PM Surayud Chulanont, who was appointed from the CNS, are not the primary fiduciary of the firms. They are not businesspeople; most of

them came from the military, the bureaucrats and the technocrats. No any families of cabinet members and CNS held 10% or more of shares in a firm in SET. These facts differ from what appeared in the government of Thaksin's which had eight eligible firms in 2001. Second, CNS and the government promised to stay in office for only a year. Hence, people knew that any benefits contributed from the government were likely to be short-lived and, moreover, some policies would take several months to be implemented and so could be modified or cancelled by the next government. Third, the political instability deriving from the organized protesters continued. During this time the group of protestors changed from the yellow-shirts, who were strongly against Thaksin, to the so-called red ones, who strongly support him. Even though the CNS attempted to slash Thaksin's political influences, the people who supported Thaksin did not give up while his popularity was still high in the north and north-east region, of which the total constituencies bear 54% of 400 elected members of the House of Representatives. This situation might lead people to foresee the vindication after the CNS and its government left the office and Thaksin's came back. Lastly, the government led by Samak Sundaravej, who once claimed that he was the nominee of Thaksin, won the election in 2007. The implicit return of Thaksin's regime substantiated the fear of the opponents of Thaksin and the atmosphere of vindication became stronger. This might indicate why even the coup was passed for two years, the military juntas connected firms were still performing defectively.

Briefly, Table 9 presents the evidence of negative buy-and-hold abnormal returns from assuming power of the politicians who assume power from the coup d'état on September 2006.

Table 9 The political connection and the buy-and-hold stock returns after the coup – power gainers' side

The dependent variable reported in this table is buy-and-hold abnormal returns (BHARs) of firms. The accounting - independent variables (*Size* (natural log of total asset), *Ln(Age in Month)* (natural log of monthly age of firms), *DE Ratio*, *IntCover* (interest coverage), *Asset Growth* (yearly asset growth rate) and *OprInc/Asset* (operating Income divided by total asset)) are measured at year 2006. DE ratio is divided by 1000 and Interest coverage is divided by 10000 to reduce the decimal points of coefficients. Industry classification follows SET standard. *CAB Connected* and *REP Connected* are dummy variables which equal to 1 if, in year 2007, the firm is considered as connected with Cabinet members for the first one and representatives for another, 0 otherwise. The connections are found through SH-BD Cooperation connection. In Panel A, the direct connection definition is used for matching the political connection. In Panel B, the direct or strongly indirect connection definition is used for matching the political connection and, in this panel, only the coefficient of political dummy is reported. The regressions utilize the OLS method. Robust standard errors are given in the parentheses. *, **, and *** indicate significance at the 10%, 5% and 1% level, respectively.

	Pre-Coup Period		Post-Coup Period	
	1-Year BHARs	6-Month BHARs	1-Year BHARs	2-Year BHARs
Panel A: Results from using the direct connection definition				
<i>Constant</i>	-0.114 (0.572)	-0.009 (0.253)	-0.478 (0.415)	0.616 (0.671)
<i>CAB Connected</i>	0.486*** (0.147)	-0.153 (0.139)	-0.325*** (0.092)	-0.548** (0.213)
<i>REP Connected</i>	2.709 (2.178)	-0.286*** (0.092)	-0.134 (0.158)	-0.325* (0.189)
<i>Size</i>	-0.010 (0.033)	-0.018 (0.013)	0.033 (0.021)	0.004 (0.034)
<i>Ln(Age in month)</i>	0.011 (0.057)	0.054 (0.039)	-0.02 (0.054)	-0.219** (0.091)
<i>DE Ratio</i>	0.000 (0.003)	0.004*** (0.001)	0.005*** (0.002)	0.012*** (0.003)
<i>IntCover</i>	0.000 (0.002)	-0.001* (0.001)	-0.004*** (0.001)	0.001 (0.004)
<i>Asset Growth</i>	0.061 (0.153)	0.486* (0.294)	0.334 (0.229)	-0.250 (0.183)
<i>OprInc/Asset</i>	1.228*** (0.343)	0.271 (0.261)	0.135 (0.483)	-2.757 (1.898)
<i>Industry Dummies</i>	YES	YES	YES	YES
R ²	22.02%	23.41%	18.63%	15.42%
Panel B: Results from using the direct or strongly indirect connection definition				
<i>CAB Connected</i>	0.263** (0.11)	-0.14** (0.061)	-0.306*** (0.058)	-0.445*** (0.133)
<i>REP Connected</i>	0.803 (0.873)	-0.050 (0.200)	-0.092 (0.171)	-0.55*** (0.179)
R ²	13.87%	23.13%	19.21%	15.96%
Observations	328	328	328	328

On the side of the power loser, the same model as done in Table 9 is used, but this time the political dummies used specify the firms connecting with the politicians in 2006, the last year of Thaksin's regime and just before the occurrence of the coup. The result from Table 10, Panel A, shows us that when the direct connection is merely applied to the definition of political connection, there is no significant evidence intimating the loss of these politically connected firms, in term of 6-month 1-year and 2-year BHARs. However, the negative signs of the coefficient estimated still cohere with our intuition.

In this Table, Panel B shows the result from adding the strongly indirect connection into the political connection definition. The results points out some differences to the ones in Panel A. In this Panel, the coefficient of *CAB Connected* exhibits the negative number which is significant at 5% level and 10% level when the 6-month and 1-year BHARs is used as dependent variable, respectively. These negative significant numbers intimate that the connected firms received the negative impacts from the happening of the coup, in term of stock returns. However, they persist in the short-run (6-month and 1-year), period which is under the military junta administration.

When the meaning of political connection is more relaxed to the direct or indirect connection definition, Panel C, same as Panel A, provides the negative numbers on the coefficients of *CAB Connected* when 6-month BHARs and 1-year BHARs are regressed with, though the estimates are not significant. The finding in this panel does not support the argument that the firms connecting with the overthrown cabinet get hurt from the coup.

The difference in the results shown in Panel B and others might come from the small sample size of cabinet connected firms in a year (10 firms for direct connection definition and 16 firms for strongly indirect and direct connection definition) which causes the result sensitive to each individual sample. On the other hand, it might also come from the fact that, the in-law relative firms of the cabinets were actually worse-off when the coup happened. In the period of Thaksin's regime, these firms might obtain some benefits from their relative status, but in the period of military junta these benefit could be restrained. Because, after the coup, the cabinet members were still perceived as the companions or underlings of Mr. Thaksin, the ex-PM whom overthrown by the coup, these people who suddenly losing their power could be seen as ones who are on the other

side of the military junta. Hence, it is also sensible to think further that the people who have strongly linkages to the cabinet members – such as his/her relative and in-law relative – still support them and still, on the other side of the junta. With these reason, it was logical to believe that there was somewhat poor atmosphere for the prosperity of these firms. It is also interesting to note that after the coup lapses for two years, BHARs seems to be insignificant at all, this might be because the resumption of power by PPP (People’s Power Party, formerly the Thai Rak Thai party). Even though, the negative sign of the estimate of *CAB Connected* still goes on, this could be due to the continuance of deep political instability, mainly caused by PAD, the so-called yellow shirts people who are strongly against Mr. Thaksin Shinawatra and his companions (or minions). Shortly, this table presents quite opaque evidence indicating that the firms connecting with cabinet members earn unpleasant effect from the outbreak of the coup, in term of 6-month and 1-year buy-and-hold abnormal returns.

Shortly, Table 9 and Table 10 indicate no evidence of the outperformance earned after the outbreak of the coup for both sides; Surayud’s government and the military who assumed power after the coup and Thaksin’s government who lost the power after such event. There might be a set of words that fits well with the results “No one gains from this fight”.

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Table 10 The political connection and the buy-and-hold stock returns after the coup – power losers' side

The dependent variable reported in this table is buy-and-hold abnormal returns (BHARs) of firms. The accounting - independent variables (*Size* (natural log of total asset), *Ln(Age in Month)* (natural log of monthly age of firms), *DE Ratio*, *IntCover* (interest coverage), *Asset Growth* (yearly asset growth rate) and *OprInc/Asset* (operating Income divided by total asset)) are measured at year 2006. DE ratio is divided by 1000 and Interest coverage is divided by 10000 to reduce the decimal points of coefficients. Industry classification follows SET standard. *CAB Connected* and *REP Connected* are dummy variables which equal to 1 if, in year 2006, the firm is considered as connected with Cabinet members for the first one and representatives for another, 0 otherwise. The connections are found through SH-BD Cooperation connection. In Panel A, the direct connection definition is used for matching the political connection. In Panel B and C, the direct or strongly indirect connection definition and direct or indirect connection are used for matching the political connection and, in these panels, only the coefficients of political dummy are reported. The regressions utilize the OLS method. Robust standard errors are given in the parentheses. *, **, and *** indicate significance at the 10%, 5% and 1% level, respectively.

	Pre-Coup Period		Post-Coup Period	
	1-Year BHARs	6-Month BHARs	1-Year BHARs	2-Year BHARs
Panel A: Results from using the direct connection definition				
<i>Constant</i>	-0.147 (0.570)	0.204 (0.261)	0.051 (0.486)	0.518 (0.562)
<i>CAB Connected</i>	-0.183 (0.129)	-0.165 (0.110)	-0.169 (0.153)	-0.282 (0.564)
<i>REP Connected</i>	-0.083 (0.104)	-0.064 (0.063)	-0.103 (0.078)	-0.103 (0.131)
<i>Size</i>	-0.030 (0.036)	-0.018 (0.013)	0.029 (0.021)	-0.001 (0.034)
<i>Ln(Age in month)</i>	0.036 (0.059)	0.061 (0.039)	-0.007 (0.053)	-0.209** (0.089)
<i>DE Ratio</i>	0.000 (0.003)	0.005*** (0.001)	0.005*** (0.002)	0.012*** (0.003)
<i>IntCover</i>	0.000 (0.002)	-0.001** (0.001)	-0.004*** (0.001)	0.001 (0.004)
<i>Asset Growth</i>	0.110 (0.163)	0.493* (0.292)	0.352 (0.222)	-0.231 (0.189)
<i>OprInc/Asset</i>	1.181*** (0.344)	0.267 (0.262)	0.13 (0.48)	-2.752 (1.898)
<i>Industry Dummies</i>	YES	YES	YES	YES
R ²	11.10%	23.51%	18.84%	15.35%
Panel B: Results from using the direct or strongly indirect connection definition				
<i>CAB Connected</i>	-0.224 (0.153)	-0.262** (0.117)	-0.255* (0.150)	-0.303 (0.487)
<i>REP Connected</i>	-0.056 (0.094)	-0.028 (0.060)	-0.059 (0.077)	-0.037 (0.131)
R ²	11.16%	24.38%	19.05%	15.34%
Panel C: Results from using the direct or indirect connection definition				
<i>CAB Connected</i>	-0.021 (0.135)	-0.125 (0.088)	-0.105 (0.122)	0.085 (0.413)
<i>REP Connected</i>	-0.09 (0.085)	0.004 (0.049)	0.018 (0.066)	-0.01 (0.102)
R ²	11.04%	23.33%	18.35%	15.18%
Observations	328	328	328	328

Table 11 reports the result from the equation like the one shown in Table 10, Panel A, but it divides the dummy marking the representative connected firms (*REP Connected*) into 2 groups which are the firms connecting with the representatives from the coalition parties (*REP_GOV Connected*) and the firms connecting with the representatives from the opposition parties (*REP_OPP Connected*). The outcome from the estimation indicates that the firms directly connecting with the representative from the coalition parties earn the negative effect, which is significant at 10% level, from the happening of the coup. This may imply that markets conjecture these firms are in the group that would receive somewhat discontent effects comparing with the period before the coup. There is another interesting point in the signs of the estimated coefficients, while all politically connected firms received negative effect from their connection when the 6-month BHARs is considered, the unlikable effect seems to be minimal for the firms connecting with the representatives from the opposition parties. Yet, when the 2-year BHARs is regressed, the estimates of *REP_GOV Connected* turns to be positive. These could imply that the negative effect from the coup is clearer in the firms connecting with the politicians from the coalition parties.

Table 11 The political connection and the buy-and-hold stock returns after the coup – representatives of coalition and opposition parties

The dependent variable reported in this table is buy-and-hold abnormal returns (BHARs) of firms. The accounting - independent variables used are the same as they are fully shown in Table 10. *CAB Connected*, *REP_GOV Connected*, and *REP_OPP Connected* are dummy variables which equal to 1 if, in year 2006, the firm is considered as the cabinet direct connected firm for the first one, representative direct connected firm which the representative(s) it connects with is in the coalition party for the next one and representative direct connected firm which the representative(s) it connects with is in the opposition party for the rest, 0 otherwise. The connections are found through SH-BD Cooperation connection. The direct connection definition is used for matching the political connection. The regressions utilize the OLS method. Robust standard errors are given in the parentheses. *, **, and *** indicate significance at the 10%, 5% and 1% level, respectively.

	Pre-Coup Period		Post-Coup Period	
	1-Year BHARs	6-Month BHARs	1-Year BHARs	2-Year BHARs
<i>CAB Connected</i>	-0.182 (0.128)	-0.163 (0.11)	-0.169 (0.152)	-0.285 (0.562)
<i>REP_GOV Connected</i>	-0.080 (0.166)	-0.070 (0.115)	-0.205* (0.119)	-0.280 (0.202)
<i>REP_OPP Connected</i>	-0.090 (0.087)	-0.050 (0.09)	-0.030 (0.124)	0.005 (0.159)
R ²	11.12%	23.42%	19.14%	15.50%
Observations	328	328	328	328

The event study on the coup d'état

Table 12 presents the results from the event study of coup d'état on 19 September 2006. The politically connected firms are classified by politicians they connect with (the cabinet members of year 2006 (Panel A), the representatives of year 2006 who are in the coalition parties (Panel B), representatives of year 2006 who are in the opposition parties (Panel C), the cabinet members and representatives of year 2007 who were appointed by the military junta (Panel D and E) and the matched-cabinet connected firms and matched representative connected firms (Panel F)). Due to very small politically connected firms sample and for practical report, this section uses SH-BD Cooperation as the source of connection. Each panel is separated into three parts which are the results from applying direct connection definitions, direct or strongly indirect connection and direct or indirect connection into the judgment procedures. In the Panel A which the result of cabinet connected firms are shown, one can see that all thirty-six cumulative abnormal returns for the cabinet members are entirely negative and more than a half demonstrate the sign of significances. This could iterate the idea that the firms connected to the cabinet of Thaksin Shinwatra in that period get hurt from the breaking out of the coup. Amid the presented six event windows, the event window covering two weeks before the coup till the coup weeks show the greatest and strongest amount. However, the abnormal return table that is modeled but not physically shown, and Figure 3, explain that the negative impact from the happening of the coup on the cabinet connected firms tends to highly concentrate in the coup week. On average, in the week of the coup, the cabinet connected firms suffer by around negative 12% of the abnormal returns adjusted by CAPM and around negative 8% when adjusted by three-factor model. Interestingly, even the definition of political connections is loosened, the negative impact these firms earn from the sudden coup is not alleviated. In contrast, it seems to be stronger when the associates of cabinet members are included as one can see when the direct and indirect definition is applied to the connection matching; all the cumulative abnormal returns present significances.

In Panel B, which the firms connecting with the representative from the coalition parties are focused, it is shown that because there are no any significant abnormal returns, the evidences of negative impact from the coup are not strong. When the definition are

more and more relax, the negative effects the connected firms realize become disappear which could view as the negative effect from the coup could not reach to these firms. – The market might not recognize the links as well as the junta. – In brief, this panel interprets the data that the government side representative connected firms do not obviously be hurt from the coup.

Interestingly, in Panel C, the firms connected with the representative of opposition parties seem to earn far better effect comparing with the cabinet connected firms. When CAPM adjusted are used, twelve of eighteen abnormal returns are positive, still, eight of them illustrate the significances. However the significant abnormal returns are likely generated from the prior period of the occurrence of the coup which may be from the rumor about the coup itself and the higher degree of the demonstration against Thaksin Shinawatra's PM status. Shortly, this panel presents that the firms connecting with the representative of opposition parties could positively be affected by the outbreak of the coup (which means the end of the Thaksin's regime as well).

In Panel D and E, the event study is applied on the firms connecting with the politicians rising up from the coup, all cumulative abnormal return are negative but only one of them is significant. This can be interpreted as the firms connected with these politicians do not earn benefit from the coup around the coup event. This could be due to the reason given in the last sub-section that focuses on BHARs or because the names of these politicians are not revealed in the short-time after the coup. It takes around two weeks to know the name list of the cabinet members and the Member of Constitution Drafting Assembly and the Member of Constitution Drafting Committee – which considered as the representatives in this year are appointed in the time that beyond our window period. In short, at that time the market does not realize the names of the new politicians rising from the coup, so it could not pick the firms connecting with the new politicians as well.

For comparability reason, the result obtained from the matched firms is applied in Panel F. As one can see, the matched-cabinet connected firms show insignificant sign for both CAPM adjusted and 3-Factor adjusted. For the matched-representative connected firms, only one of (0,-1) window present the evidence of significant, while others are not.

Shortly, this panel indicates that the matched firms do not received significant effect from the outbreak of the coup.

In Figure 3, which shows the cumulative CAPM-adjusted returns, it is postulated that the returns of politically connected stocks represent different degrees of shock on the coup date and while they started around the same place in a month before the coup, time were wearing out the government side stock.

In conclusion, this sub-section demonstrates the evidence from the event study that while the firms connecting with cabinet members under PM Thaksin earned significant negative cumulative abnormal returns around the coup event, the firms connecting with representatives of the coalition parties obtain the negative effect with lower level. In the other hand, the firms connecting with representatives from the opposition parties enjoy the occurrence of the coup as their stock make significant cumulative abnormal returns around this event.



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Table 12 Event study on coup d'état on September 2006

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 coup event (18th – 22th September) are perceived as the week zero. The politically connected firms are classified by politicians they connect with (cabinet members, representatives who are in the coalition parties and representatives who are in the opposition parties) and the definitions of connection applied into the judgment procedures (direct connection, direct and strongly indirect connection, direct and indirect connection). The source of political connection is from Cooperation. The political connection dummies are generated from the information of year 2006 and 2007. Abnormal returns are adjusted by CAPM and 3-factors model which their coefficients used are estimated from weekly returns in 2004 to 2006. Cumulative abnormal returns are sum of all abnormal returns over the window; (-4,4), (-2,2), (-2,-1), (-2,0), (0,1), (0,4).t-value are given in the parentheses. *, **, and *** indicate significant difference from zero at the 10%, 5% and 1% level, respectively.

	CAPM Adjusted						3-Factors Adjusted					
	(-4,4)	(-2,2)	(-2,1)	(-2,0)	(0,1)	(0,4)	(-4,4)	(-2,2)	(-2,1)	(-2,0)	(0,1)	(0,4)
Panel A: Cabinet connected portfolio (2006)												
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)	-6.29 (1.65)	-4.66 (1.24)	-3.06 (1.1)	-6.78* (1.84)	-4.23 (1.29)	-5.5 (1.27)
Direct & Strongly Indirect 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)	-6.35** (2.22)	-5.6 (1.73)	-4.83* (1.75)	-8.38** (2.16)	-5.33* (1.86)	-5.37* (1.84)
Direct & 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)	-4.82* (1.93)	-5.39** (2.25)	-4.76** (2.12)	-7.55** (2.5)	-4.54* (2.04)	-5.17** (2.37)
Panel B: Representative connected portfolio – Coalition parties (2006)												
Direct Connection	-1.00 (0.3)	0.00 (0.00)	-1.63 (0.55)	-5.28 (1.42)	-3.56 (1.62)	-2.56 (1.14)	-2.33 (0.72)	-2.10 (0.64)	-2.17 (0.75)	-3.81 (1.06)	-2.42 (1.14)	-3.22 (1.45)
Direct & Strongly Indirect Connection	1.64 (0.59)	3.95 (1.57)	1.15 (0.53)	-0.89 (0.42)	-1.10 (0.9)	0.65 (0.32)	0.56 (0.2)	2.16 (0.88)	0.84 (0.39)	0.83 (0.39)	0.17 (0.14)	0.17 (0.08)
Direct & Indirect Connection	2.3 (1.22)	4.03** (2.58)	2.12 (1.59)	0.43 (0.32)	-0.76 (0.89)	0.73 (0.56)	1.58 (0.84)	2.78* (1.8)	1.98 (1.49)	1.89 (1.44)	0.29 (0.34)	0.45 (0.34)
Panel C: Representative connected portfolio – Opposition parties (2006)												
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)	4.02** (2.14)	3.44*** (2.92)	2.47** (2.07)	3.42** (2.73)	-1.22 (1.42)	0.19 (0.14)
Direct & Strongly Indirect 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)	4.32** (2.46)	3.23*** (2.79)	2.54** (2.33)	3.2*** (2.89)	-0.7 (0.85)	0.69 (0.53)
Direct & 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)	0.60 (0.26)	-0.69 (0.46)	-0.51 (0.35)	1.51 (1.05)	-0.35 (0.48)	-1.59 (1.05)

Table 12 Event study on coup d'état on September 2006 – (continue)

	CAPM Adjusted						3-Factors Adjusted					
	(-4,4)	(-2,2)	(-2,1)	(-2,0)	(0,1)	(0,4)	(-4,4)	(-2,2)	(-2,1)	(-2,0)	(0,1)	(0,4)
Panel D: Cabinet connected portfolio (2007)												
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)	-4.46 (1.43)	-0.61 (0.39)	-2.02 (0.73)	-1.57 (0.62)	-1.95 (0.93)	-3.05 (1.2)
Direct & Strongly Indirect 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)	0.81 (0.38)	-1.44 (1.09)	-0.36 (0.24)	-0.84 (0.53)	-0.75 (0.71)	-0.71 (0.55)
Panel E: Representative connected portfolio (2007)												
Direct Connection	-1.27 (0.27)	-5.99 (1.29)	-7.23 (1.1)	-5.27 (1.06)	-4.21 (1.49)	-4.34 (5.18)	-0.13 (0.03)	-5.33 (0.9)	-2.18 (0.37)	-3.33 (0.62)	-1.11 (0.49)	-3.02* (7.75)
Direct & Strongly Indirect Connection	-4.42 (0.85)	-2.53 (0.63)	-5.06 (1.41)	-2.88 (0.83)	-2.76 (1.41)	-4.28 (1.32)	-4.99 (0.96)	-3.73 (0.91)	-3.02 (0.93)	-2.8 (0.83)	-1.37 (0.74)	-4.37 (1.36)
Panel F: Matched portfolio												
Direct Matched-CAB Connected	0.31 (0.1)	1.54 (0.66)	-1.41 (1.1)	-0.73 (0.37)	-1.82 (1.21)	-0.64 (0.22)	0.33 (0.11)	1.32 (0.61)	0.56 (0.37)	-0.19 (0.1)	-0.54 (0.33)	-0.43 (0.15)
Direct Matched-REP Connected	1.95 (1.30)	1.23 (1.10)	-1.68 (1.55)	-0.03 (0.02)	-2.24*** (2.76)	-1.06 (1.05)	1.47 (0.98)	0.29 (0.26)	0.08 (0.08)	0.10 (0.09)	-1.02 (1.33)	-1.17 (1.16)

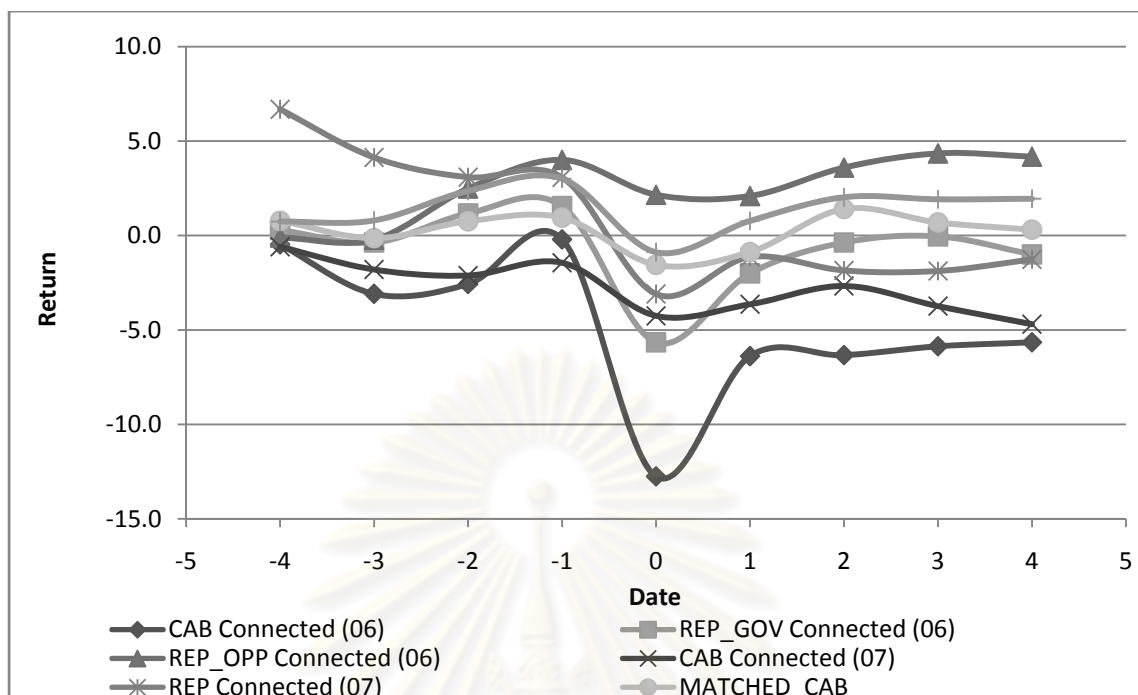


Figure 3: Cumulative abnormal returns for politically connected stocks around 2006 Coup event

The figure providing additional details on Table 12 shows cumulative abnormal returns for politically connected firms around the event of 2006 Coup. The week of coup event (18th – 22th September) is perceived as the week zero. The abnormal returns are calculated by CAPM-adjusted method. The definition of political connection utilized is direct connection, the source of political connection are “SH-BM cooperation”. The sample are classified into four groups as Table 12 which are 1) Cabinet connected firms of year 2006 (CAB Connected (06)) 2) Firms connecting with representatives of year 2006 who are in the coalition parties (REP_GOV Connected (06)) 3) Firms connecting with representatives of year 2006 who are in the opposition parties (REP_OPP Connected (06)) 4) Cabinet connected firms of year 2007 (CAB Connected (07)) 5) Representatives connected firms of year 2007 (REP Connected (07)) 6) Matched-cabinet connected firms and 7) Matched-representative connected firms.

The impact of winning/losing an election

As one can see in Table 13, the government side stocks both cabinets connected and representatives connected seems to considerably favor the winning on 2007 national election. When the CAPM-adjusted returns are focused, all returns of cabinet connected stock in the Panel A are all positive and more than a half are significant. When the 3-factor-adjusted is applied, only two returns result are significant, however all of them are still positive. The results in the Panel A also illustrates the evidence of the tighter definition of connection, the greater the abnormal returns.

Even though with a smaller size, the firms connecting with representatives in the coalition parties also earn the positive contribution from the victory while almost all cumulative abnormal returns in the Panel B show the positive sign. As well as cabinet connected firms, their direct connected firms enjoy the victory more than the indirect ones. This panel could be interpreted that the government side representative connected firms also enjoy from the victory of the national election.

As for the firms connecting with representatives from opposition parties, the results in Panel C and Figure 4 imply the negative impact from the failure to win the election on the election week. Although there is no clear sign for the all windows, only ones those are significant are negative which are in the window $(-2,0)$. The window $(-2,0)$ period is the interesting one, because the figure shown below imply that the movement in the prices and returns seem to start moving differently from other two politically connected portfolio in two weeks before the election week. One can see that the movement of cabinet connected and government side representative connected firms started branching out in this week as well. It might be because the expectation of the population becomes clearer when the election comes nearer. Shortly, this panel presents that the firms connecting with the representative of opposition parties did not earn or earns less positive effect from their failure to be the government side comparing with the ones from the coalition parties.

It is dissimilar to the coup event which the effect of winning election tends to last longer for the cabinet connected firms (Figure 4). This might be because it takes a month to establish the cabinet members so the firms connecting to these peoples are still not certain if they would get the connection with cabinet members status. The figure below could help to support the argument; it is shown that the firms connecting with cabinet and government side parties carry on moving upward, even though the election week was passed.

Shortly, Table 13 and figure 4 present the event study finding that firms connecting with cabinet members and representatives who were in the coalition parties enjoyed the cumulative abnormal returns inspired from their victory in the 2007 national election while the firms connecting with the opposition parties did not get that pleasant effect.

Table 13 Event study on 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 national election event (24th – 28th December) are perceived as the week zero. The politically connected firms are classified by politicians they connect with (cabinet members, representatives who are in the coalition parties and representatives who are in the opposition parties) and the definitions of connection applied into the judgment procedures (direct connection, direct and strongly indirect connection, direct and indirect connection). The political connection dummies are generated from the information of year 2008. The source of political connection is from Cooperation. Abnormal returns are adjusted by CAPM and 3-factors model which their coefficients used are estimated from weekly returns in 2005 to 2007. Cumulative abnormal returns are sum of all abnormal returns over the window; (-4,4), (-2,2), (-2,1), (-2,0), (0,1), (0,4).t-value are given in the parentheses. *, **, and *** indicate significant difference from zero at the 10%, 5% and 1% level, respectively.

	CAPM Adjusted						3-Factors Adjusted					
	(-4,4)	(-2,2)	(-2,1)	(-2,0)	(0,1)	(0,4)	(-4,4)	(-2,2)	(-2,1)	(-2,0)	(0,1)	(0,4)
Panel A: Cabinet connected portfolio												
Direct Connection	21.3*	16.86*	13.7*	9.80*	9.00	16.09	12.32	11.69	8.28	6.40	5.69	8.58
	(2.31)	(2.21)	(2.08)	(1.98)	(1.69)	(1.71)	(1.35)	(1.64)	(1.34)	(1.33)	(1.12)	(0.91)
Direct & Strongly Indirect Connection	18.32*	14.42*	12.06*	8.58*	7.85	12.44	11.6	10.41	7.68	6.05	5.13	6.67
	(2.15)	(2.04)	(2.03)	(1.93)	(1.65)	(1.39)	(1.46)	(1.65)	(1.43)	(1.44)	(1.15)	(0.8)
Direct & Indirect Connection	6.3*	6.68**	5.97**	3.04	4.88**	5.19	3.18	4.57*	3.35	1.89	3.18*	2.24
	(1.75)	(2.42)	(2.49)	(1.65)	(2.54)	(1.53)	(0.99)	(1.86)	(1.53)	(1.11)	(1.78)	(0.72)
Panel B: Representative connected portfolio – Coalition parties												
Direct Connection	5.81	3.85	2.73	1.92	1.73	4.34	5.77	3.21	1.27	1.98	0.65	3.64
	(1.11)	(1.72)	(0.99)	(0.93)	(1.23)	(1.4)	(1.09)	(1.28)	(0.49)	(0.96)	(0.53)	(1.07)
Direct & Strongly Indirect Connection	3.25	4.74*	4.91**	2.10	4.05**	1.79	1.38	3.15	2.59	1.45	2.47*	-0.33
	(0.83)	(2.04)	(2.22)	(1.31)	(2.77)	(0.74)	(0.34)	(1.39)	(1.3)	(0.91)	(1.88)	(0.12)
Direct & Indirect Connection	1.96	4.10*	4.47*	1.92	4.38***	1.83	-0.04	2.48	2.15	1.21	2.81**	-0.36
	(0.51)	(1.81)	(2)	(1.19)	(3.16)	(0.8)	(0.01)	(1.23)	(1.12)	(0.79)	(2.25)	(0.15)
Panel C: Representative connected portfolio – Opposition parties												
Direct Connection	0.92	1.91	0.00	-1.58*	0.57	1.66	1.00	1.73	-0.5	-1.52*	0.19	1.47
	(0.58)	(1.25)	(0)	(2.02)	(0.6)	(1.32)	(0.53)	(1.05)	(0.41)	(1.81)	(0.2)	(1.01)
Direct & Strongly Indirect Connection	0.13	1.60	0.10	-1.3*	0.39	1.07	0.38	1.47	-0.39	-1.17	0.00	0.99
	(0.08)	(1.25)	(0.1)	(1.76)	(0.49)	(0.98)	(0.22)	(1.06)	(0.37)	(1.46)	(0.01)	(0.79)
Direct & Indirect Connection	-1.46	1.06	-0.27	-1.76**	0.06	0.04	-1.02	1.01	-0.71	-1.56*	-0.30	0.08
	(0.77)	(0.9)	(0.30)	(2.29)	(0.10)	(0.05)	(0.55)	(0.83)	(0.76)	(1.97)	(0.46)	(0.08)

Table 13 Event study on the national election on December 2007 – (continue)

Panel D: Matched portfolio												
Direct Matched-CAB	-3.11	0.98	1.19	0.70	0.18	-2.59*	-3.95	0.08	0.92	-0.77	-0.85	-3.74*
Connected	(1.58)	(0.76)	(1.23)	(0.69)	(0.17)	(1.77)	(1.55)	(0.05)	(0.79)	(0.68)	(0.77)	(1.93)
Direct Matched-REP	-1.22	1.24	-0.37	1.14	1.36***	1.27	-0.32	1.31	0.03	0.63	0.91**	1.53
Connected	(0.77)	(1.54)	(0.54)	(1.64)	(3.00)	(1.16)	(0.21)	(1.61)	(0.04)	(0.91)	(2.10)	(1.37)

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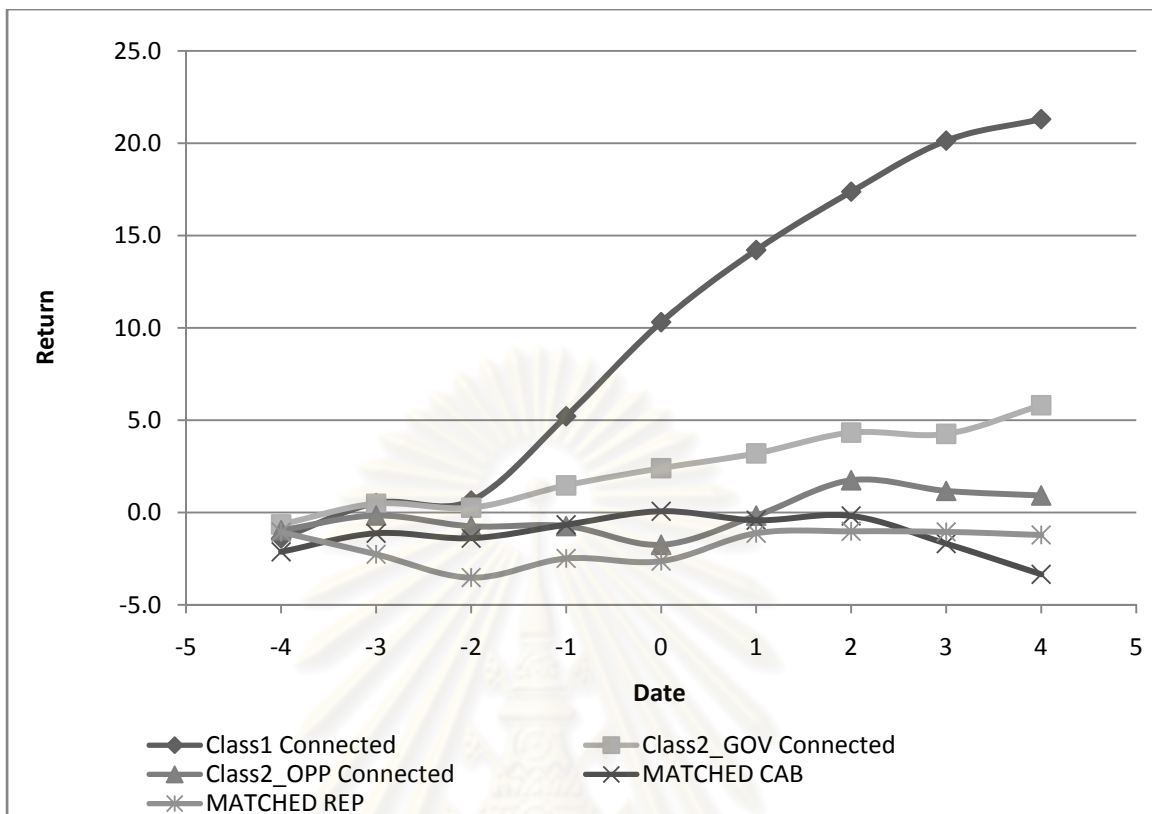


Figure 4: Cumulative abnormal returns for politically connected stocks around 2007 national election

The figure providing additional details on Table 13 shows cumulative abnormal returns for politically connected firms around the event of 2007 national election. The week of election event (24th – 28th December 2007) is perceived as the week zero. The abnormal returns are calculated by CAPM-adjusted method. The definition of political connection utilized is direct connection, the source of political connection are “SH-BM cooperation”. The sample are classified into three group which are 1) Cabinet connected firms 2) Firms connecting with representatives who are in the coalition parties 3) Firms connecting with representatives who are in the opposition parties 4) Matched-cabinet connected firms and 5) Matched-representative connected firms.

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5.3 Political connection, governance, and firm specific information

The study continues on the benefits received from political connection in the former section by adding some controls that might be omitted in preceding papers into the models. They are corporate governance (Corporate Governance Index (CGI), CGI components) and the hypothesized information flow variables (the idiosyncratic volatility (IDIO), and the probability of informed-base trading (PIN)). This addition will lead us to the answer of the main research question of this paper, i.e. after controlling for corporate governance and information flow, will the politically connected firms still outperform their peers?.

In Table 14, this issue is investigated by adding control variables and their interaction terms with political connection dummy into the regression. Due to statistic insignificance of representative connection dummy (*REP Connected*) in the model run with these added variables, they are not used in the equations and only effectual *CAB Connected* dummy is utilized. This table is arranged in two panels which each panel is divided into two parts. Panel A reports the result from using the connection found through shareholding as the definition of political connection whereas Panel B uses the political connection found through board of director. Tobin's Q ratio is employed as dependent variable in the first part and ROA is used in the second part. Table 14 organizes the results obtained with eight columns which are different in adding CGI, IDIO, PIN, and their interaction with the cabinet connection dummy in the model used before in Table 5.

The outcomes obtained in the first column shows that after the corporate governance level among firms is controlled in our preceding used regression model, the estimates of *CAB Connected* are still highly significant as the same for the equation used Tobin's Q and ROA as dependent variables. Hence, the insight we obtain from the former section can still be sustained. As for the corporate governance control, the estimates of *CGI* show us the positive signs for both dependent variables in both panels. Meanwhile, particularly for the equation used Tobin's Q as the dependent variable, the coefficient of *CGI* is highly significant. The latter evidence could be interpreted that the firms having higher corporate governance standard tends to outperform the firms with lower one,

especially in term of Tobin's Q ratio. This evidence is in line with the finding of GIM (2003), Bebchuk et al. (2008) and Bhagat et al. (2008).

The interaction term between the CGI and cabinet connected dummy is added to the model in column 2 and the coefficient of *CAB Connected* still indicates that the cabinet connected firms can generate the outperformance. Even though, the statistical significance shows somewhat less strong in the result from Panel A. The coefficient estimate of *CGI* is still similar to ones in the first column – it is highly significant and presents a little greater amount when the interaction term is inserted. For the interaction term, *CAB Connected*CGI*, its estimates in both panel demonstrate the negative signs and ones of Panel B, both for Tobin's Q ratio and ROA, show the evidence of statistic significance (at 10% significance level for equation used Tobin's Q and 5% level for another). This finding could be interpreted that while connecting with cabinet or having superior governance level could bring the pleasant performance to the firms, having both does not earn another additional positive effect. Besides, the high governance standard could impede the attempt to exploit benefits from the political connections one have. This might be because the corporate governance standard is also based on transparency and openness that are disparate to the exploitation on political connection which needs some opaqueness. It could be the case that the firms that have very high governance standard are the firms that their manager, employee and big shareholder believe in good governance and have top-level integrity in the aspect of a firm and the nation; hence they would not try to take advantage from the political connection.

Table 14 The political connection, corporate governance and the performances of the firms

The dependent variables reported in this table are Tobin's Q ratio and ROA of firms in each year t. Sample period is 2001-2008. DE ratio is divided by 1000 to reduce the decimal points of coefficients. The accounting - independent variables (*Size* (natural log of total asset), *Revenue/Total Asset*, *DE Ratio* and *ln(Age in Month)* (natural log of monthly age of firms)) are measured at year t-1. Corporate Governance Index (*CGI*) is measured at year t-1 while the idiosyncratic volatility (*IDIO*) and the probability of information based trading (*PIN*) are measured at year t. Industry classification follows SET standard. State-owned enterprise equals to 1 if 20% of more of shares of the firm is held by government who is also the biggest shareholder for the year. *CAB Connected* is dummy variables which equal to 1 if the firm is considered as the cabinet direct connected firm, 0 otherwise. The connections are found through shareholding for Panel A and through board of director for Panel B. The direct connection definition is used for matching the political connection. 10% cut-off point is applied to the political connection judgment through shareholding and 2 people cut-off through the board of director. The regressions utilize the OLS method. Robust standard errors are given in the parentheses. *, **, and *** indicate significance at the 10%, 5% and 1% level, respectively.

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Panel A: Connection established through shareholding

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent Variable: Tobin's Q Ratio								
<i>Constant</i>	1.417*** (0.441)	1.405*** (0.444)	1.643*** (0.467)	1.651*** (0.467)	1.037*** (0.383)	1.047*** (0.378)	1.734*** (0.572)	0.824*** (0.364)
<i>CAB Connected</i>	0.544*** (0.126)	1.029** (0.433)	0.645*** (0.094)	0.816*** (0.158)	1.004*** (0.089)	1.355*** (0.398)	1.38*** (0.438)	1.378 (1.004)
<i>CGI</i>	0.295*** (0.056)	0.317*** (0.062)					0.284*** (0.082)	0.357*** (0.085)
<i>CAB Connected*CGI</i>		-0.912 (0.946)					-1.204 (0.896)	-0.024 (1.203)
<i>IDIO</i>			-0.026*** (0.01)	-0.025** (0.01)			-0.024** (0.01)	
<i>CAB Connected*IDIO</i>				-0.185* (0.109)			-0.222** (0.096)	
<i>PIN</i>					0.038 (0.129)	0.055 (0.129)		0.098 (0.125)
<i>CAB Connected*PIN</i>						-1.436 (1.559)		-1.478 (1.921)
<i>Size</i>	0.016 (0.021)	0.016 (0.021)	0.004 (0.025)	0.003 (0.025)	0.03 (0.023)	0.03 (0.023)	0.002 (0.024)	0.028 (0.024)
<i>Revenue/Total Assets</i>	0.108*** (0.02)	0.108*** (0.02)	0.11*** (0.018)	0.113*** (0.02)	0.138*** (0.02)	0.139*** (0.02)	0.112*** (0.022)	0.141*** (0.022)
<i>DE Ratio</i>	-0.004 (0.012)	-0.004 (0.012)	-0.001 (0.012)	-0.001 (0.012)	-0.001 (0.01)	-0.001 (0.01)	-0.002 (0.013)	-0.001 (0.009)
<i>ln(Age in month)</i>	-0.085*** (0.01)	-0.084*** (0.01)	-0.063*** (0.01)	-0.062*** (0.01)	-0.099*** (0.028)	-0.1*** (0.027)	-0.076*** (0.01)	-0.093*** (0.026)
<i>State-owned Enterprise</i>	0.027 (0.075)	0.025 (0.075)	0.031 (0.079)	0.035 (0.077)	0.006 (0.121)	0.007 (0.121)	0.04 (0.078)	0.007 (0.123)
<i>Industry Dummy</i>	YES	YES	YES	YES	YES	YES	YES	YES
<i>Year Dummy</i>	YES	YES	YES	YES	YES	YES	YES	YES
R ²	21.46%	21.52%	18.77%	18.91%	21.89%	22.26%	22.01%	21.81%
Observations	2402	2402	2474	2474	1675	1675	2402	1636

Table 14 The political connection, corporate governance and the performances of the firms – (continue)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent Variable: ROA								
<i>Constant</i>	0.067 (2.310)	0.066 (0.231)	0.145 (0.178)	0.146 (0.178)	0.067 (0.045)	0.067 (0.046)	0.124 (0.232)	0.011 (0.047)
<i>CAB Connected</i>	0.067*** (0.017)	0.082* (0.049)	0.065*** (0.017)	0.081*** (0.02)	0.044*** (0.013)	0.066* (0.035)	0.107** (0.047)	0.067 (0.062)
<i>CGI</i>	0.086 (0.061)	0.086 (0.06)					0.071 (0.061)	0.082*** (0.016)
<i>CAB Connected*CGI</i>		-0.029 (0.074)					-0.049 (0.074)	-0.007 (0.081)
<i>IDIO</i>			-0.006*** (0.002)	-0.006*** (0.002)			-0.005*** (0.002)	
<i>CAB Connected*IDIO</i>				-0.018** (0.007)			-0.019*** (0.007)	
<i>PIN</i>					0.003 (0.018)	0.004 (0.018)		0.006 (0.018)
<i>CAB Connected*PIN</i>						-0.089 (0.112)		-0.096 (0.121)
<i>Size</i>	-0.010 (0.013)	-0.010 (0.013)	-0.012 (0.013)	-0.012 (0.013)	0.000 (0.002)	0.000 (0.002)	-0.012 (0.013)	0.000 (0.002)
<i>Revenue/Total Assets</i>	0.022 (0.015)	0.022 (0.015)	0.023 (0.014)	0.023 (0.014)	0.015*** (0.005)	0.015*** (0.005)	0.022 (0.015)	0.015*** (0.004)
<i>DE Ratio</i>	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)
<i>ln(Age in month)</i>	0.015** (0.006)	0.015** (0.006)	0.015** (0.006)	0.015** (0.006)	-0.01** (0.004)	-0.01** (0.004)	0.016** (0.007)	-0.009** (0.004)
<i>State-owned Enterprise</i>	0.055 (0.043)	0.055 (0.043)	0.060 (0.038)	0.061 (0.038)	-0.004 (0.01)	-0.004 (0.01)	0.057 (0.043)	-0.014 (0.009)
<i>Industry Dummy</i>	YES	YES	YES	YES	YES	YES	YES	YES
<i>Year Dummy</i>	YES	YES	YES	YES	YES	YES	YES	YES
R ²	1.92%	1.92%	1.96%	1.96%	22.14%	22.15%	1.98%	24.22%
Observations	2582	2582	2667	2667	1744	1744	2582	1694

Table 14 The political connection, corporate governance and the performances of the firms – (continue 2)

Panel B: Connection established through board of director

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent Variable: Tobin's Q Ratio								
<i>Constant</i>	1.344*** (0.433)	1.336*** (0.431)	1.561*** (0.436)	1.560*** (0.416)	0.762*** (0.318)	0.759*** (0.323)	1.636*** (0.514)	0.519 (0.305)
<i>CAB Connected</i>	0.751*** (0.219)	1.943*** (0.749)	0.738*** (0.213)	0.707** (0.317)	1.255*** (0.273)	1.463*** (0.515)	2.158** (0.929)	1.378 (1.004)
<i>CGI</i>	0.305*** (0.063)	0.329*** (0.078)					0.284*** (0.101)	0.357*** (0.085)
<i>CAB Connected*CGI</i>		-2.329* (1.261)					-2.541* (1.37)	-0.024 (1.203)
<i>IDIO</i>			-0.026*** (0.009)	-0.026*** (0.009)			-0.024** (0.01)	
<i>CAB Connected*IDIO</i>				0.019 (0.263)			-0.076 (0.287)	
<i>PIN</i>					0.017 (0.128)	0.028 (0.143)		0.098 (0.125)
<i>CAB Connected*PIN</i>						-0.762 (2.417)		-1.478 (1.921)
<i>Size</i>	0.023 (0.02)	0.023 (0.02)	0.012 (0.023)	0.012 (0.022)	0.047** (0.02)	0.047** (0.02)	0.01 (0.021)	0.028 (0.024)
<i>Revenue/Total Assets</i>	0.094*** (0.015)	0.096*** (0.015)	0.095*** (0.014)	0.095*** (0.013)	0.117*** (0.01)	0.116*** (0.01)	0.096*** (0.016)	0.141*** (0.022)
<i>DE Ratio</i>	-0.002 (0.01)	-0.002 (0.01)	0.001 (0.01)	0.001 (0.01)	-0.002 (0.009)	-0.002 (0.009)	0.001 (0.011)	-0.001 (0.009)
<i>ln(Age in month)</i>	-0.088*** (0.01)	-0.088*** (0.01)	-0.066*** (0.013)	-0.066*** (0.012)	-0.097*** (0.027)	-0.097*** (0.026)	-0.081*** (0.01)	-0.093*** (0.026)
<i>State-owned Enterprise</i>	-0.046 (0.076)	-0.044 (0.077)	-0.043 (0.078)	-0.043 (0.081)	-0.137 (0.114)	-0.136 (0.113)	-0.033 (0.084)	0.007 (0.123)
<i>Industry Dummy</i>	YES	YES	YES	YES	YES	YES	YES	YES
<i>Year Dummy</i>	YES	YES	YES	YES	YES	YES	YES	YES
R ²	21.71%	21.94%	18.64%	18.64%	22.32%	22.35%	22.25%	21.81%
Observations	2402	2402	2474	2474	1675	1675	2402	1636

Table 14 The political connection, corporate governance and the performances of the firms – (continue 3)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent Variable: ROA								
<i>Constant</i>	0.058 (0.229)	0.058 (0.229)	0.139 (0.177)	0.137 (0.178)	0.056 (0.042)	0.056 (0.043)	0.116 (0.231)	-0.001 (0.045)
<i>CAB Connected</i>	0.056** (0.025)	0.123*** (0.047)	0.055** (0.024)	0.016 (0.041)	0.061** (0.03)	0.045 (0.048)	0.056 (0.101)	0.164 (0.108)
<i>CGI</i>	0.089 (0.06)	0.090 (0.06)					0.073 (0.061)	0.082*** (0.016)
<i>CAB Connected*CGI</i>		-0.132** (0.06)					-0.068 (0.114)	-0.212 (0.188)
<i>IDIO</i>			-0.006*** (0.002)	-0.006*** (0.002)			-0.006*** (0.002)	
<i>CAB Connected*IDIO</i>				0.024 (0.03)			0.019 (0.035)	
<i>PIN</i>					0.002 (0.018)	0.001 (0.02)		0.004 (0.02)
<i>CAB Connected*PIN</i>						0.059 (0.237)		-0.004 (0.257)
<i>Size</i>	-0.009 (0.013)	-0.009 (0.013)	-0.011 (0.013)	-0.011 (0.013)	0.001 (0.002)	0.001 (0.002)	-0.011 (0.013)	0.001 (0.002)
<i>Revenue/Total Assets</i>	0.02 (0.015)	0.02 (0.015)	0.022 (0.014)	0.022 (0.014)	0.014*** (0.004)	0.014*** (0.004)	0.02 (0.015)	0.015*** (0.004)
<i>DE Ratio</i>	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0)	-0.002*** (0)	-0.002*** (0)	-0.002*** (0)
<i>ln(Age in month)</i>	0.014** (0.006)	0.014** (0.006)	0.014** (0.006)	0.014** (0.006)	-0.01** (0.004)	-0.01** (0.004)	0.016** (0.007)	-0.009** (0.004)
<i>State-owned Enterprise</i>	0.048 (0.043)	0.048 (0.043)	0.054 (0.037)	0.055 (0.037)	-0.010 (0.008)	-0.010 (0.007)	0.051 (0.042)	-0.021** (0.008)
<i>Industry Dummy</i>	YES	YES	YES	YES	YES	YES	YES	YES
<i>Year Dummy</i>	YES	YES	YES	YES	YES	YES	YES	YES
R ²	1.90%	1.90%	1.94%	1.95%	22.34%	21.07%	1.96%	24.54%
Observations	2582	2582	2667	2667	1744	1744	2582	1694

In Table 15, the model used in the first column of Table 14 is rerun by replacing *CGI* with its components as the explanatory variable. The table is organized in the same manner as Table 14 which is divided into 2 panes and each panel has two parts. The estimated equations are arranged in 6 equations – fives for each component in the model and another for all components in one equation. While *CAB Connected* dummies are significantly positive for all equations, only two components of *CGI* demonstrate the significant evidences for the first five columns.

When the Tobin's Q ratio is applied as dependent variable, the coefficient of *Board structure* component in the first column shows the significant-positive number at 10% level and the estimate of *Disclosure & Transparency* component provides the highly significant-positive figure in the fifth column. The estimates of other components also illustrate positive sign, although they are not significant. And in the time that ROA is utilized as dependent variable, the estimates of *Conflict of Interest* present the significant positive numbers at 10% level in the second column and the coefficient of *Disclosure & Transparency* component also generate the highly significant-positive number in the fifth column as the outcomes of using Tobin's Q. The estimates of other components also present positive sign except one of *Board Responsibility* in Panel A, however they are not significant. These evidences are consistent when the definition of connection is switched from through shareholding to through board of director. Interestingly, when the all components are all added in the model as it is shown in the last column, *Board structure* and *Conflict of Interest* lose it significant power in the equation and merely the coefficient of *Disclosure & Transparency* is able to show the significant sign, still, it is at 1% level. This evidence might indicate a noteworthy point as it is found in Cheung et al. (2007) and Doidge (2007) that among the components of corporate governance index, the financial disclosure or disclosure and transparency are the most relevant component to the firms' accounting characteristic and performances. Furthermore, the results obtained in the fifth and sixth columns in Table 15 also suggest that using only disclosure and transparency component might be more relevant to the performance of the firms, in term of ROA, than using the whole corporate governance index. As one can see that the coefficients of *Disclosure & Transparency* demonstrate the highly significant and positive number when it is regressed with both Tobin's Q and ROA, the estimate of *CGI* in the first column of Table 14 only present the significance when employing Tobin's Q

ratio as dependent variable. Hence, the disclosure and transparency component could show its relevance to the more various performances. Once again the results in this table express the consistence with Cheung et al. (2007) and Doidge (2007).

Table 14 deals with the issue of information flow. When the firm-specific variation in third column is controlled, the cabinet connected firms can still earn the outperformance with highly statistic significance. The evidence obtained in the third column of Table 15 also point out the influence of idiosyncratic volatility seems not to follow our hypothesis which we hypothesize it as the proxy of information flow. In contrast with the corporate governance indicator (*CGI*), idiosyncratic volatility (*IDIO*) appears to be the factor that hinders the satisfying performance. As it is shown in the table, the estimates of *IDIO* in column 3 present the negative numbers with highly significant evidence. The results, however, is not in line with Ferreira et al. (2007) which presents the result pointing that idiosyncratic volatility, the proxy of private information flow, positively relates with the profitability of the firms and associates with the efficient corporate investments. If the information served to the market or openness really bring the good performance to the firms, the results in column 3 and 4 tend to follow the arguments of Kelly (2007) and Ashbaugh-Skaife (2006) who assert that the idiosyncratic volatility is not an appropriate proxy of information flow and has no explicit association with it. Nonetheless, it could be interpreted that the firms with high idiosyncratic volatility are the uninteresting firms which are likely to have less analyst coverage (Chan et al. 2006) or they are small-capitalization firms (Malkiel and Xu (1997)). The rise of high idiosyncratic variation in these firms can be explained. First, it could be because these firms, as aforementioned, have less analyst coverage, are smaller and received less attention from the market. Their prices occasionally move i and, sometimes, keeps stagnant for a period. Thus it seems to have less co-movement with the market which in turn, generates higher idiosyncratic volatility. Second, Thai market is dominated by the firms with big capitalization in the SET of which the share price and volumes significantly affects, SET index. Hence, the very big firms tend to have less firm-specific variation comparing with the small firms.

Table 15 The political connection, corporate governance and the performances of the firms – CGI components (*continue*)

	(1)	(2)	(3)	(4)	(5)	(6)
Dependent Variable: ROA						
<i>Constant</i>	0.096 (0.214)	0.102 (0.214)	0.104 (0.231)	0.095 (0.228)	0.075 (0.217)	0.096 (0.216)
<i>CAB Connected</i>	0.070*** (0.015)	0.071*** (0.015)	0.071*** (0.017)	0.066*** (0.022)	0.067*** (0.016)	0.066*** (0.021)
<i>Board Structure</i>	0.009 (0.021)					-0.005 (0.027)
<i>Conflict of Interest</i>		0.054* (0.03)				0.042* (0.024)
<i>Board Responsibility</i>			-0.003 (0.053)			-0.063 (0.049)
<i>Shareholder Right</i>				0.054 (0.088)		0.036 (0.099)
<i>Disclosure & Transparency</i>					0.078*** (0.027)	0.081 (0.05)
<i>Size</i>	-0.008 (0.014)	-0.010 (0.013)	-0.008 (0.013)	-0.009 (0.012)	-0.010 (0.013)	-0.011 (0.012)
<i>Revenue/Total Assets</i>	0.022 (0.015)	0.022 (0.015)	0.022 (0.015)	0.022 (0.015)	0.022 (0.015)	0.022 (0.015)
<i>DE Ratio</i>	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)
<i>ln(Age in month)</i>	0.014** (0.006)	0.013** (0.006)	0.014** (0.006)	0.014** (0.006)	0.016** (0.006)	0.015** (0.006)
<i>State-owned Enterprise</i>	0.059 (0.040)	0.054 (0.043)	0.059 (0.041)	0.060 (0.040)	0.054 (0.041)	0.051 (0.038)
<i>Industry Dummy</i>	YES	YES	YES	YES	YES	YES
<i>Year Dummy</i>	YES	YES	YES	YES	YES	YES
R ²	1.88%	1.91%	1.88%	1.92%	1.95%	2.00%
Observations	2582	2582	2582	2582	2582	2582

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Table 15 The political connection, corporate governance and the performances of the firms – CGI components (continue 3)

	(1)	(2)	(3)	(4)	(5)	(6)
Dependent Variable: ROA						
<i>Constant</i>	0.079 (0.209)	0.083 (0.210)	0.085 (0.227)	0.076 (0.224)	0.057 (0.213)	0.079 (0.211)
<i>CAB Connected</i>	0.058** (0.024)	0.06** (0.025)	0.059** (0.025)	0.055** (0.027)	0.056** (0.025)	0.053** (0.026)
<i>Board Structure</i>	0.009 (0.021)					-0.006 (0.027)
<i>Conflict of Interest</i>		0.055* (0.029)				0.042* (0.024)
<i>Board Responsibility</i>			0.000 (0.052)			-0.060 (0.048)
<i>Shareholder Right</i>				0.057 (0.087)		0.038 (0.098)
<i>Disclosure & Transparency</i>					0.079*** (0.027)	0.081 (0.05)
<i>Size</i>	-0.007 (0.014)	-0.009 (0.013)	-0.007 (0.013)	-0.009 (0.012)	-0.009 (0.013)	-0.011 (0.012)
<i>Revenue/Total Assets</i>	0.021 (0.015)	0.02 (0.015)	0.021 (0.014)	0.021 (0.015)	0.02 (0.015)	0.021 (0.015)
<i>DE Ratio</i>	-0.002*** (0)	-0.002*** (0)	-0.002*** (0)	-0.002*** (0)	-0.002*** (0)	-0.002*** (0)
<i>ln(Age in month)</i>	0.013** (0.006)	0.012** (0.006)	0.013** (0.006)	0.014** (0.006)	0.015** (0.006)	0.015** (0.006)
<i>State-owned Enterprise</i>	0.052 (0.041)	0.047 (0.044)	0.053 (0.041)	0.054 (0.04)	0.047 (0.041)	0.045 (0.037)
<i>Industry Dummy</i>	YES	YES	YES	YES	YES	YES
<i>Year Dummy</i>	YES	YES	YES	YES	YES	YES
R ²	1.88%	1.91%	1.88%	1.92%	1.95%	2.00%
Observations	2582	2582	2582	2582	2582	2582

In the fourth column, we insert the interaction term of cabinet connection dummy and idiosyncratic volatility into the model. The interaction term shows negative and significant signs in the first panel which utilize the shareholding as the source of the political connection definition. This evidence further indicates that among the cabinet connected firms, the firms with high firm-specific variation further get negative effect, or in another view, the firms that have low firm-specific variation are the real one that earns benefits from their connection. Nevertheless, the results in Panel B do not conform to these characteristics and the estimates of the interaction terms present the positive sign, even though, they are not significant.

In column 5 and 6, *IDIO* in column 3 and 4 are replaced by the probability of informed-base trading, *PIN*, the proxy of the private information. When the probability of informed-base trading is regressed with Tobin's Q ratio in column 5, its estimates show positive sign in all parts of both panels, however they are not significant. The positive relationship between *PIN* the accounting performance is consistent with the finding of Ferreira et al. (2007) which also finds the insignificant association between *PIN* and the profitability (ROE). In the sixth column, the interaction term between cabinet connected dummy is added into the equation. However, its coefficients are not strong enough to be significant. The estimates of *CAB Connected* are still positive and highly significant even when private information flow in the column fifth is controlled. In column sixth, which the interaction term is added, the coefficient of cabinet connection dummy are still similar to column 5, that is significant and positive except one from the second part of Panel B which present the insignificant result. The evidence from column 5 and 6 do not clearly support the argument that the firms, having higher private information flow which is a proxy of openness, can generate the outperformance.

In conclusion, this section provides the evidence indicating that after controlling for the corporate governance level, idiosyncratic volatility and the probability of information-based trading of the firms, the politically connected firms can still outperform the non-connected ones. This insight is meaningful to reject the first null hypothesis. Furthermore, the firms with superior corporate governance standards could enjoy the better performances and one with higher firm-specific variation could realize the underperformance comparing with their peers. Hence, the second null hypothesis was repudiated, particularly for the governance issue, as well.

CHAPTER VI

CONCLUSION

This study investigates the effects of political connection and corporate governance level on the performances of the listed firms in SET during 1999-2008. The politicians are classified into two groups: the cabinet members and the representatives. There are two sources of political connection used in this study; the first is the shareholding list and the second is the board of director list. The political connections are also classified into three levels which are direct connection, strongly indirect connection and weakly indirect connection. Corporate Governance Index (*CGI*) is used as the proxy of the corporate governance level of firms and the idiosyncratic volatility (*IDIO*) and the probability of informed-trading (*PIN*) will be proposed as the proxies of information flow. The *CGI* is conducted following Ananchotikul (2007) approach. In term of accounting performance, the results indicate that the firms connecting with the cabinet members significantly outperform the markets while the firms connecting with the representatives are not. This evidence is condensed in the period of 2001-2005 when the direct connection and direct or strongly indirect connection are applied in the meaning of the political connections. This evidence is consistent with the work of Imai (2006) and Bunkanawitcha et al. (2008). However, when the direct or indirect connection is used in the matching process, the cabinet connected firms in 2001-2005 can have the outperformance likewise ones in the other (1999-2000 and 2007-2008). When the representatives is refined into the representatives from the coalition parties and ones from the opposition parties, interestingly, the firms connecting with the representative from the coalition parties received negative effect from their political connection. When the governance level and the proxy of private information flow are controlled, the outperformance of cabinet connected firms still persists. Moreover, the result from the study points out that the firms that have higher corporate governance level will have better performance, especially in term of Tobin's Q ratio. The obtained results also indicate that the component of *CGI* that is relevant to the firms' performances is Disclosure and Transparency. Even though, the firms having higher private information flow cannot acquire the outperformance.

This research also studies the effect of the coup in 2006 on the stock returns of politically connected firms by using the event study on weekly returns and the regression models on the buy-and-hold portfolio. The result from the event study suggests that the firms connecting with the overthrown cabinet members received significantly negative effect from the happening of coup while the firms connecting with representatives from the opposition parties received the positive effect. By using the regression model on buy-and-hold stock returns, the firms direct or strongly indirect connecting with the overthrown cabinet members receive the significantly negative effect, likewise the firms connecting with the politicians rising from the coup.

Nevertheless, this study has some limitations. First, it is the limitation arising from lack of data, particularly PIN and CGI variables. Corporate Governance Index is not available for the first two years of the whole period of study (1999-2000). And the shortage of PIN data is from the technical computation problem which, in ideal case, requires the considerably effective parallel computers to estimate. The missing variable could affect the results. Second limitation is the political connection data. The information on the indirect connections with politicians which deal with the connection through in-law relative, close relationship and business conglomerates cannot be claimed to be complete because this kind of information is not acknowledged in general public.

Eventually, the insight provided by this study could be further explored in several aspects. The next research may extend the classification of politicians to other politically related officials such as the advisory committee of the ministers, the cabinet secretary-generals and the senators. Moreover, of the benefits from political connection could be extended to other matters, such as earning quality, the internal transactions, stock performance on other events and the usage of nominee in Thai entities.

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APPENDICES

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APPENDIX A

Supplementary explanation for political connection matching procedure and judgment

Identification of Political Connection

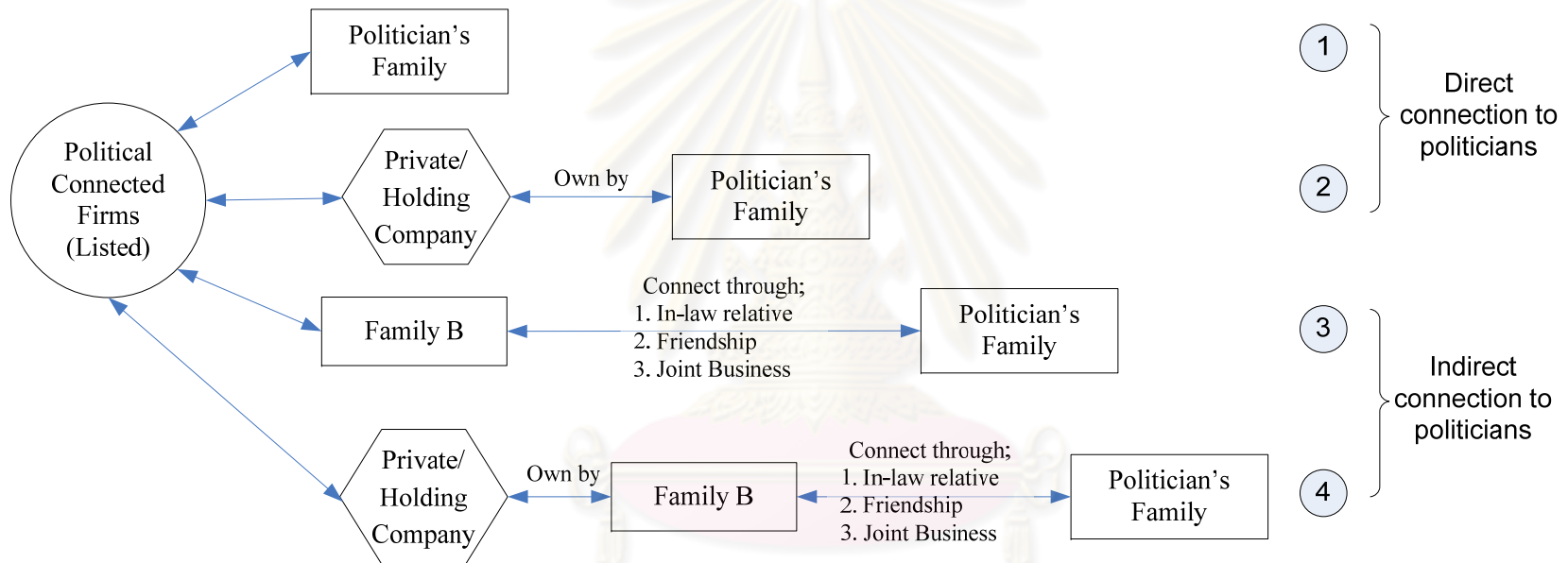


Figure 5: The diagram indicating the identification of the political connection

Please note that the condition 1 to 4 (the number in the circles) will be applied to connection through shareholding and the conditions 1 and 3 will be applied to connection through board of director staff. The arrows out from the politically connected firms, the big circle, indicate either that the shares or the board position of the subject firms or are held by the people in the next box. The rectangle boxes are used to describe individual people and the octagon ones are used to describe juristic people. The arrows between the rectangles and rectangles or octagons and rectangles indicate the connection between these people.

Definition declaration

1. *Direct connection* describes the connection between a family and politicians which are established through sharing the same family name. For connection through shareholding, this can mean the shares of the subjected firm are either held by the politicians families or by the company that is also owned by the politicians family. Please see condition 1 and 2 in Identification of Political Connection in Appendix A(page above).

2. *Indirect Connection* describes the connection between a shareholder's or board member's family and politicians which are established through some relationship except sharing the same family name. The connection between these two people can be in-law relative relationship which is defined as *strong indirect connection* and friendship or business partner which called *weak indirect connection*. The condition 3 and 4 in Identification of Political Connection in Appendix A(page above) give a picture for the indirect connection.

3. *Cabinet member* describe the people holding the cabinet member status, namely, Prime Minister, deputy prime minister, minister, deputy minister, for not less than 6 month in a year.

Please note that the change of Prime Ministers in People's Power Party from Samak Sundaravej to Somchai Wongsawat in late September 2008 does not meet the condition as the cabinet stays in office less than six months. Thus, for 2008, the criterion is specifically relaxed by counting the office term of a cabinet member who sits in both governments consecutively.

The Council of National Security members (CNS or Kor-Mor-Chor in Thai), Ex-PM Thaksin Shinawatra are also considered as *Cabinet member* in year 2007 and 2008 respectively.

4. *Representative(s)* describe both people holding the cabinet member status less than 6 month in a year or people who holds member of House of Representatives status not less than 6 months in a year. Please note that for the year 2007, under the Surayud government, the government rising from the coup d'état, there was no parliament in that year. However, 110 people are appointed as the Member of Constitution Drafting

Assembly and the Member of Constitution Drafting Committee by the military government, thus these people will be used as *Representatives* in the year.

5. *Real Shareholder* describes the person or family who is the owner of the company which is also the institutional shareholder of the listed firms. For example, Family A owns company named Holding Co., Ltd. and Holding Co., Ltd hold 5% of share in XYZ Public Co., Ltd., a listed firm. Hence, we call family A as the real shareholder of the XYZ Public Co., Ltd.



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Objective of matching

For analytical capability, it would provide more insight on how the political connection works if the connections are classified into two aspects. The first is whom the firms connect with? Is he/she cabinet member or representative? Generally, the studies on political connection find the stronger power of the cabinet connected firms than the representative connected firms. Due to the difference of power contributed, it is essentially to separate politicians into 2 classes. And the second is how does the firm connect with the politicians? Is it direct connection or strongly indirect connection or weakly indirect connection? Intuitively, the direct connection seems to inspire the politicians to do something more than ones of his/her in-law relative, business partners or friends because his family is the direct beneficiary of the firm. Moreover, in some cases, the loosen definitions can be adopted to remedy the problem of sample shortage while the number of politically connected firms will be added without lowering the cut-off, or also allow to raise the cut-off level, classify the firms into subgroups or slicing a long period into shorter one. In short, the objective of the matching process is to obtain whether, whom and how the firm connected with politicians.

To easily compare the characteristic between each classified group – the cabinet member or representative, direct or indirect connection, the matching procedure must be created with some cautions. For example, if only the direct connection is assumably relevant, the shareholders who directly connect with the representative will be considered as connected with the representatives no matter they have indirect connection with cabinet members or not. On the other hand, if the strongly indirect connection is assumed to be relevant, the shareholders who both directly connect with the representative and indirectly connect with cabinet member will be considered as connected with the cabinet members. (Because the cabinet members will get the first priority under the judgment.) Hence, each sub-group of the matching result must be the mutually exclusive one and this is the only way that allows such flexibility.

Matching procedure

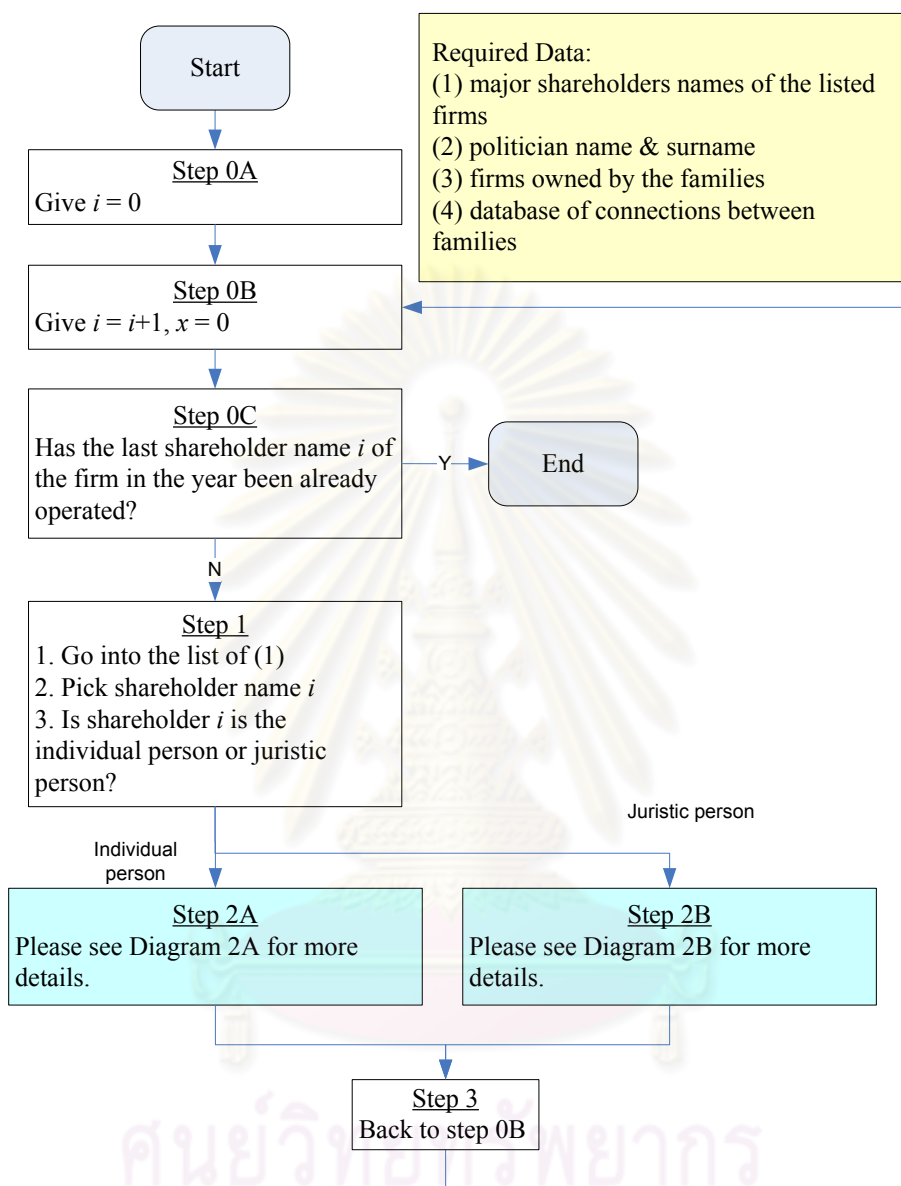


Figure 6: The big picture of matching process

This diagram indicates how matching between the shareholder's name and the politician works. The product from this diagram will be the eventual material for political connection judgment. Please see Figure 6A and 2B and Table A1 for more details of step 2A. For matching connection through the board of director, the process should be similar excepts only there is no Step 2B to follow.

Matching procedure - Step 2A

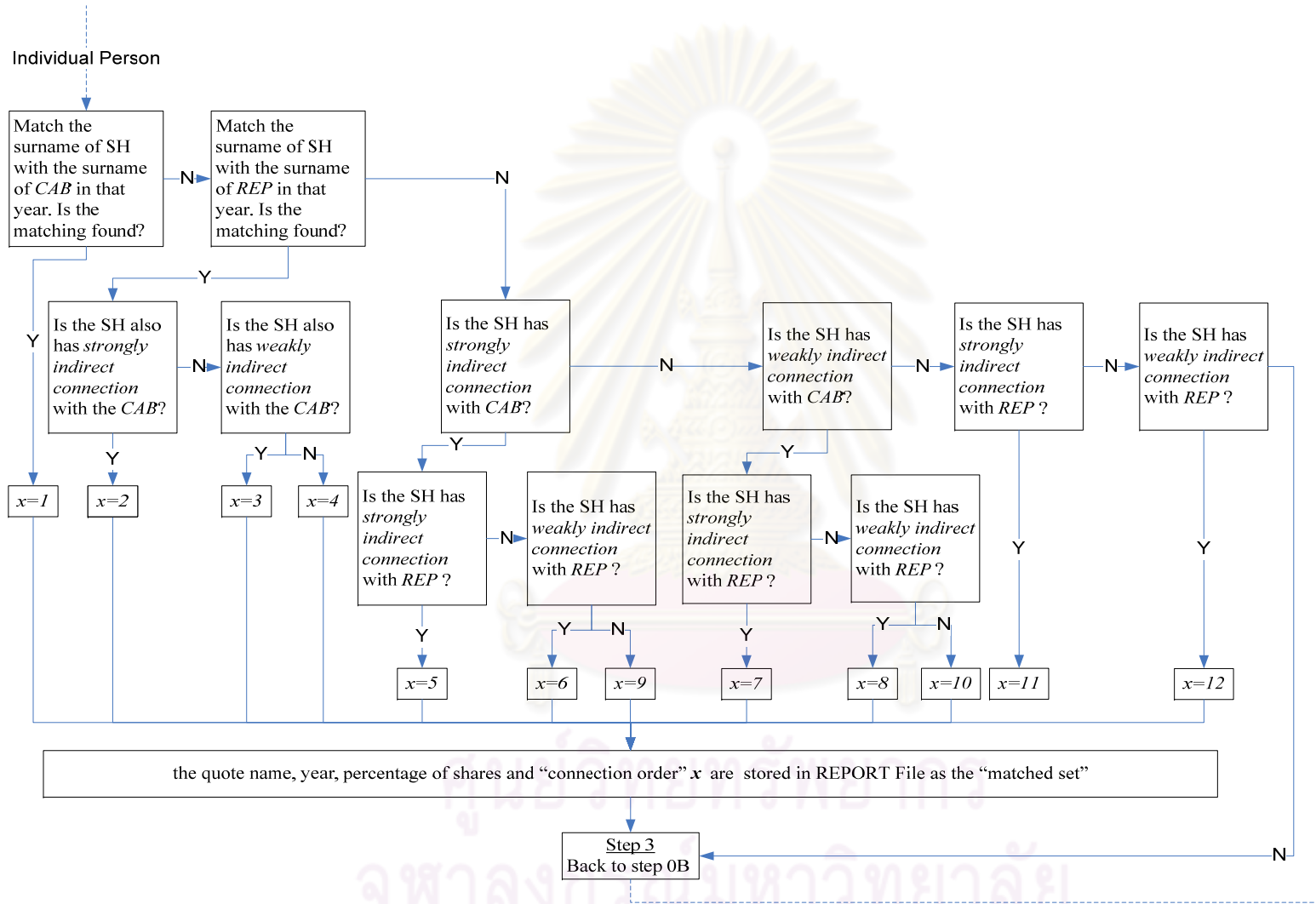


Figure 6A: Details of Step 2A in Figure 6.

For matching connection through the board of director, the procedure should be similar, except only the number “1” (represent 1 person) would be stored as a replacement for the percentage of shares.

Table A1 Condition of connection used in matching procedure for each connection order

This table helps to clarify the meaning of each connection order described in Figure 6A and 2B

Connection order "x"	Directly connects with	Strongly Connects with	Weakly connects with
1	<i>CAB</i>	-	-
2	<i>REP</i>	<i>CAB</i>	-
3	<i>REP</i>	No	<i>CAB</i>
4	<i>REP</i>	No	No
5	No	<i>CAB & REP</i>	-
6	No	<i>CAB</i>	<i>REP</i>
7	No	<i>REP</i>	<i>CAB</i>
8	No	No	<i>CAB & REP</i>
9	No	<i>CAB</i>	No
10	No	No	<i>CAB</i>
11	No	<i>REP</i>	No
12	No	No	<i>REP</i>

“No” means there's no connection that is eligible for that particular box

“-” means the condition of the box does not need to be checked.

Table A2 Component for each definition

This table states the package of connection orders whose percentages of shares will be sum up when the firms are in the process of political connection judgment. The aggregated number then will be examined whether it reach the set cut-off or not.

Definition assumed	Cabinet connected	Representative connected	Cabinet or Representative connected
Direct Connection Only	(1)	(2)+(3)+(4)	(1)+(2)+(3)+(4)
Direct Connection or Strong Indirect Connection	(1)+(2)+(5)+(7)	(3)+(4)+(8)+(9)	(1)+(2)+(3)+(4)+(5)+(7)+(9)
Direct Connection or Indirect Connection	(1)+(2)+(3)+(5)+(6)+(7)+(8)	(4)+(9)+(10)	(1)+(2)+(3)+(4)+(5)+(6)+(7)+(8)+(9)+(10)

Judgment of political connection

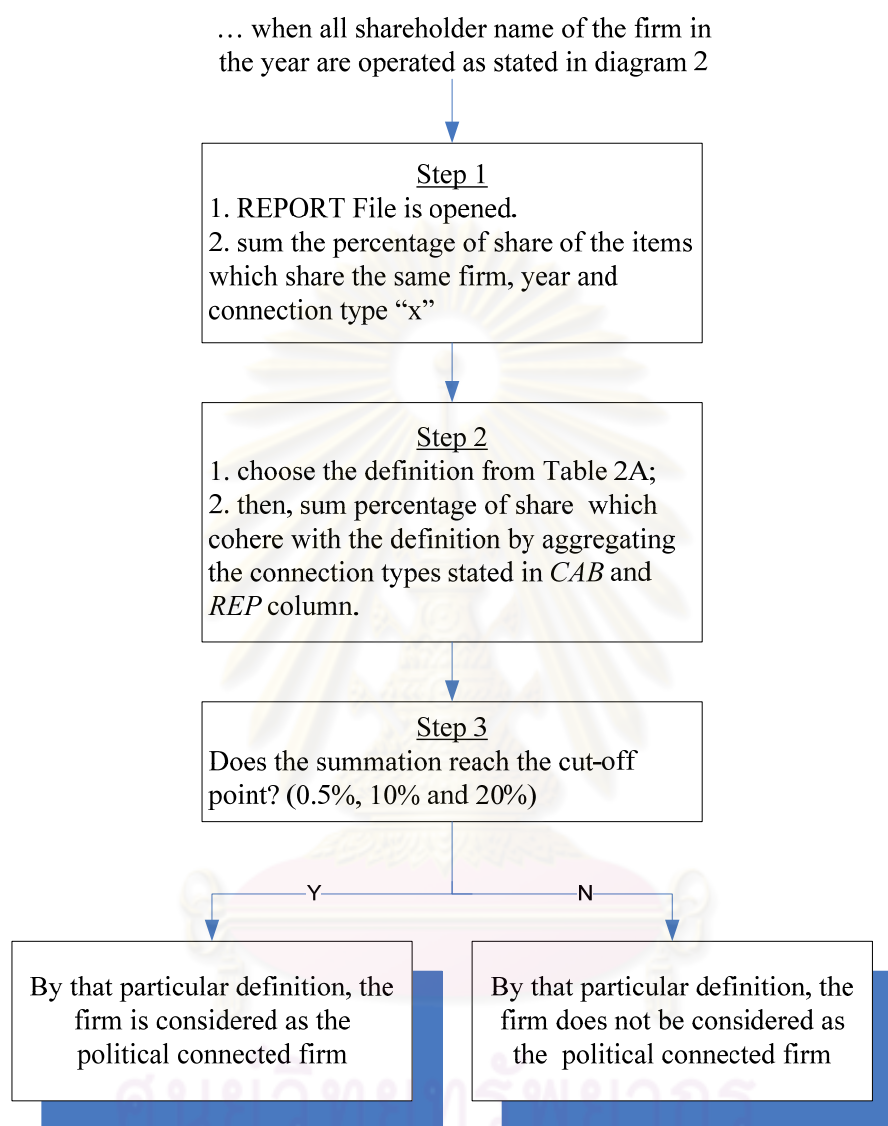


Figure 7: The judgment of political connection

This diagram shows how to judge the politically connected firm after the percentage of share held by the each connection order "x" is obtained. Please see Table 2A for more details of Step 2. For the judgment of political connection through board of director, the aggregated number of connected boards in a year will be checked as a replacement of the aggregated percentage of shared held by connected people and the cut-off used will be 1, 2 and 3 people.

APPENDIX B

Table A3 List of control variables used in the study and their descriptions

This table summarizes the set of controls variable used in the study. The subscript i and t represent firm and calendar year. The control variables will be collected as of the start of the year.

Variable	Meaning
$Size_{i,t}$	The logarithm of total assets controlling for profitability that vary with firm's size
$[Fixed/Total\ Asset]_{i,t}$	The ratio of net fixed assets to total assets
$Asset\ Growth_{i,t}$	The one year growth rate in total assets
$(OprInc/Asset)_{i,t}$	The ratio of EBIT to total assets
$(Revenue/Asset)_{i,t}$	The asset turnover ratio controlling for the firm efficiency
$Age\ in\ month_{i,t}$	The month of the firm's establishment controlling for more settled in market presence
$\ln(Age\ in\ month_{i,t})$	The natural log of the month of the firm's establishment controlling for more settled in market presence
$State\ own\ Enterprise_{i,t}$	The dummy variables for firms that government owns for more than 10 percent of firm's total shares.
$DE\ Ratio_{i,t}$	The debt-equity ratio divided by 1000
$IntCover_{i,t}$	The interest coverage ratio divided by 1 million

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APPENDIX C

The books providing the information for indirect connection used in this study²⁶

Chiangkul, V. 2006. Government economic policy: Conflict of business interest. Bangkok: King Prachatipok's Institute.

Julapongstorn, S. 2000. Decoding the Thai commercial banking monopoly. Bangkok: Siam.

Lertrattana, P. 2006. Thaksin, his associates, and the inconsistency of Thai politicians. Bangkok: Openbook.

Nimpanich, C. 2008. Interest groups and Thai politics: Old & new politics and case studies. 2nd edition: Chulalongkorn University Publisher.

Phongpaichit, P., and C. Baker. 2005. Thaksin: The business of politics in Thailand. Silkworm books, Chiangmai, Thailand.

Phongpaichit, P., ed. 2006. The struggle of Thai capitalists 1: Adaptation and dynamics. Bangkok: Matichon.

Phongpaichit, P., ed. 2006. The struggle of Thai capitalists 2: Cultural politics for survivor. Bangkok: Matichon.

Piriyarangsak, S., N. Trirat, and N. Wannathepsakul. 2004. Corruption: politicians, bureaucrats, and businessmen. Bangkok: National economic and social advisory council.

Polabutra, A. 2007. The Black Book: The Thaksin Regime Corruption Menu. Bangkok: Rachathamanoon.

Sappaiboon, T. 2000. The fifty-five most well-known families: Volume 1. Bangkok: Nation Multimedia Group.

Sappaiboon, T. 2001. The fifty-five most well-known families: Volume 2. Bangkok: Nation Multimedia Group.

Sappaiboon, T. 2006. The legends of the thirty most well-known families. Bangkok: Animate Group.

Supawasu, K. 2004. Who says the rich don't cheat: A true story. Bangkok: B.B.

²⁶ Note: Even though the information used in these studies is mainly based on these books, we also utilize the information about the connection between the big families from the known facts presented in other sources as well.

The Brooker Group. Thai business group: A unique guide to who owns what, 5th edition. Bangkok: The Brooker Group.

Vitheethas Institute. 2003 Good governance and corruption in Thai social. Bangkok: Vitheethas.



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APPENDIX D

Questions for corporate governance index construction

Code	Questions	Scoring Rule	Max. Score	Weight
A. Board Structure			6.00	20%
A1	What is the size of the board of directors?	1 if $5 \leq a1 \leq 12$; ;0 otherwise	1.00	
A2	What is the size of executive board?	1 if $a2 \leq 12$;0 otherwise	1.00	
A3	How many directors are also managers?	1 if $a3/a1 < 1/3$;0 otherwise	1.00	
A4	How many directors are dependent?	1 if $a4/a1 > 1/3$;0 otherwise	1.00	
A5	Does the firm state the definition of independence in the disclosure report?	1 if $a5=1$;0 otherwise	1.00	
A6	How many directors have attended director training programs by the Thai Institution of Directors Association?	1 if $a6/a1 > 1/2$;0 otherwise	1.00	
B. Conflict of Interest			8.00	25%
B1	Is the chairman is the same person as CEO?	1 if $b1=0$;0 otherwise		
B2	Is the chairman independent?	1 if $b2=1$;0 otherwise		
B3	How many public companies dose the chairman currently serve as a director or a manager?	1 if $b3 \leq 3$;0 otherwise		
B4	Does an audit committee exist?	1/2 if $b4=1$;0 otherwise		
B5	Chair by independent director?	1/6 if $b5=1$;0 otherwise		
B6	Role and responsibilities clearly stated?	1/6 if $b6=1$;0 otherwise		
B7	Performance or meeting attendance disclosure?	1/6 if $b7=1$;0 otherwise		
B8	Does a nominating committee exist?	1/2 if $b8=1$;0 otherwise		
B9	Chair by independent director?	1/6 if $b9=1$;0 otherwise		
B10	Role and responsibilities clearly stated?	1/6 if $b10=1$;0 otherwise		
B11	Performance or meeting attendance disclosure?	1/6 if $b11=1$;0 otherwise		
B12	Does a remuneration committee exist?	1/2 if $b12=1$;0 otherwise		
B13	Chair by independent director?	1/6 if $b13=1$;0 otherwise		
B14	Role and responsibilities clearly stated?	1/6 if $b14=1$;0 otherwise		
B15	Performance or meeting attendance disclosure?	1/6 if $b15=1$;0 otherwise		
B16	Does a corporate governance committee exist?	1/2 if $b16=1$;0 otherwise		
B17	Chair by independent director?	1/6 if $b17=1$;0 otherwise		
B18	Role and responsibilities clearly stated?	1/6 if $b18=1$;0 otherwise		
B19	Performance or meeting attendance disclosure?	1/6 if $b19=1$;0 otherwise		

Code	Questions	Scoring Rule	Max. Score	Weight
B. Conflict of Interest			8.00	25%
B20	Does the firm has a policy that specifies a minimum number of independent directors? Does the firm discuss the following internal-control issues in the disclosure report?	1/3 if b20=1 ;0 otherwise		
B21	- Organization and control environment	2/15 if b21=1 ;0 otherwise		
B22	- Risk management	2/15 if b22=1 ;0 otherwise		
B23	- Management control activities	2/15 if b23=1 ;0 otherwise		
B24	- Information and communication	2/15 if b24=1 ;0 otherwise		
B25	- Monitoring and evaluation	2/15 if b25=1 ;0 otherwise		
C. Board Responsibilities			13.00	20%
C1	Number of board meeting per year	1 if c1>4 ;0 otherwise	1.00	
C2	Average director's meeting attendance	c2/c1 ;0 otherwise	1.00	
C3	Average independent directors meeting attendance	c3/c1 ;0 otherwise	1.00	
C4	Is there a board meeting solely for independent directors?	1 if c4=1 ;0 otherwise	1.00	
C5	Number of audit committee meeting per year	1 if c5=>4 ;0 otherwise	1.00	
C6	Average audit committee meeting attendance	c6/c5 ;0 otherwise	1.00	
C7	Is there at least one accounting expert on the audit committee?	1 if c7=1 ;0 otherwise	1.00	
C8	How many public companies does the chairman of audit committee serve as a director or manager?	1 if c8<=3 ;0 otherwise	1.00	
C9	Does the firm clearly distinguish the role and responsibilities of the board and management?	1/3 if c9=1 ;0 otherwise	0.33	
C10	Does the firm disclose that directors evaluation system exists?	1/3 if c10=1 ;0 otherwise	0.33	
C11	Does the firm have an option scheme which incentivizes management?	1/3 if c11=1 ;0 otherwise	0.33	
C12	Has there been any legal dispute where the firm was claimed to be a fault during the past year?	1 if c12=0 ;0 otherwise	1.00	
C13	Has there been any sanction to the board, management, or other insider for violations of Securities and/or Corporations laws in the last two years?	3*(1-c13) ;0 otherwise	3.00	
D. Shareholder Rights			7.00	10%
D1	Does the firm hold an annual general shareholder meeting?	1 if d1=1 ;0 otherwise		
D2	Does the firm employ one-share-one-vote rule?	1 if d2=1 ;0 otherwise		
D3	Is cumulative voting allowed in electing directors?	1 if d3=1 ;0 otherwise		

Code	Questions	Scoring Rule	Max. Score	Weight
D. Shareholder Rights			7.00	10%
D4	Is voting by mail allow?	1 if d4=1 ;0 otherwise		
D5	How many days in advance does the company send out a notice of general meetings to shareholders?	d5/14 ;0 otherwise		
D6	Is proxy voting allowed?	1 if d6=1 ;0 otherwise		
D7	Does the firm disclosure a dividend policy?	1/3 if d7=1 ;0 otherwise		
D8	What is the minimum dividend (as a percentage of net profit) according to the dividend policy?	1/3*d8/100 ;0 otherwise		
D9	Does the firm provide an explanation/rationale for setting dividend at the specified level?	1/3 if d9=1 ;0 otherwise		
E. Disclosure and Transparency			13.00	25%
Does the firm disclose the following information in the disclosure report?				
E1	- Board meeting attendance of individual directors	1 if e1=1 ;0 otherwise	1.00	
E2	- Board compensation and/or benefits of individual directors	1 if e2=1 ;0 otherwise	1.00	
E3	- Directors shareholding	1 if e3=1 ;0 otherwise	1.00	
E4	- Management shareholding	1 if e4=1 ;0 otherwise	1.00	
E5	- Related party transaction in detail	1 if e5=1 ;0 otherwise	1.00	
E6	- Corporate group structure	1 if e6=1 ;0 otherwise	1.00	
E7	- Grouping of major shareholding who belong to the same family/economics unit	1 if e7=1 ;0 otherwise	1.00	
E8	Does investor relation unit exist?	1 if e8=1 ;0 otherwise	1.00	
E9	Does the firm mention its investor relations activity carried out during the past year?	1 if e9=1 ;0 otherwise	1.00	
E10	Does the firm's Annual Report include a section devoted to corporate governance principles and implementations?	1 if e10=1 ;0 otherwise	1.00	
E11	How many times in the last two years has the firm been charged for failures to publish company reports within the specified periods?	3-e23 ;0 otherwise	3.00	

APPENDIX E

The result from using SH-BD Cooperation for the political connection definition

Table A4 Numbers of politically connected firms – Yearly

This table presents the number of politically connected firms each year in Stock Exchange of Thailand from 1999 to 2008. Politicians are classified into cabinet members and representatives. This table utilizes SH-BD Cooperation as the source of political connection. Panel A uses the direct connection definition in the matching of politically connected firms while Panel B and Panel C apply the direct or strongly indirect connection and the direct or indirect connection as the definition of political connection, respectively.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	99-08
Panel A: Direct Connection through shareholding - 10% cut-off											
<i>CAB Connected</i>	6	7	13	11	10	14	16	10	4	7	98
<i>REP Connected</i>	33	26	72	79	80	81	59	56	4	51	541
Panel B: Direct Connection through board of director - 2 person cut-off											
<i>CAB Connected</i>	11	12	16	18	17	19	22	16	12	8	151
<i>REP Connected</i>	41	38	89	89	95	93	65	60	11	63	644
Panel C: Direct Connection through co-operative definition											
<i>CAB Connected</i>	22	27	34	32	32	34	34	27	12	26	787
<i>REP Connected</i>	46	36	104	110	115	115	88	87	11	75	280

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Table A5 Benefit of political connection tested by Fama-French 3 Factors (1993) model

This table present the result of pooled regressions on weekly stock return by using Fama-French (1993) 3 Factor model. The period of study is from 1998 to 2008. The samples are divided into 4 groups which are cabinet connected firms, matched-cabinet connected firms, representative connected firms and matched-representative connected firms. The constant is generally known as abnormal return or alpha indicator of benefit receives from political connection. RM-RF is weekly market return minus the overnight interbank rate. SMB (Small-minus-Big) is the average return on the three small portfolios minus the average return on the three big portfolios. And HML (High-minus-Low) is the average return on the two value portfolios minus the average return on the two growth portfolios.²⁷ Robust standard errors are given in the parentheses. *, ** and *** indicate significance from zero at the 10%, 5% and 1% level, respectively. The table shows the estimation when applying direct SH-BD Cooperation connection as the definition of political connection. Panel A shows the estimate result of the whole period (1998 – 2008) while Panel B presents the estimated coefficient of the constant term when the sub periods are applied which are Thaksin's period (2001 – 2005) and Non Thaksin's Period (1998 – 2000 and 2007 – 2008).

	Buy and Hold Portfolio				Long-Short Portfolio	
	Class1	Class2	Matched Class1	Matched Class2	Class1-Matched	Class2-Matched
Panel A: Whole period						
<i>Constant</i>	-0.0019 (0.0013)	0.0016* (0.0009)	-0.0012 (0.0011)	-0.0004 (0.0009)	-0.0007 (0.0016)	0.0020* (0.0011)
<i>RM-RF</i>	1.1104*** (0.043)	0.8192*** (0.0323)	1.0347*** (0.0388)	0.9074*** (0.0305)	0.075718 (0.0533)	-0.0881** (0.0391)
<i>SMB</i>	0.7696*** (0.0637)	0.5605*** (0.0478)	0.7076*** (0.0574)	0.7141*** (0.0452)	0.062032 (0.0789)	-0.1537*** (0.0579)
<i>HML</i>	-0.1006* (0.0523)	-0.04313 (0.0393)	0.1297*** (0.0472)	0.0864** (0.0372)	-0.2304*** (0.0648)	-0.1295*** (0.0475)
<i>R²</i>	57.57%	57.01%	60.67%	55.41%	2.37%	3.36%
Panel B: Thaksin's and non Thaksin's regime						
<i>Thaksin's Regime</i>	-0.0032** (0.0013)	-0.0001 (0.0008)	0.0002 (0.0013)	-0.0001 (0.0007)	-0.0034* (0.0018)	0.0000 (0.0008)
<i>R²</i>	71.68%	78.01%	58.41%	86.47%	22.75%	4.22%
<i>Non-Thaksin's Regime</i>	-0.0014 (0.0022)	0.0021 (0.0018)	-0.0021 (0.002)	-0.0014 (0.0017)	0.0007 (0.0026)	0.0035 (0.0022)
<i>R²</i>	54.07%	50.20%	63.26%	55.41%	2.78%	4.05%

*This table could be compared with Table 4.

²⁷ The definition of SMB and HML are literally from Kenneth R. French's website; <http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/>

Table A6 The political connection and the performances of the firms

The dependent variables reported in this table are Tobin's Q ratio, ROA and ROE of firms in each year t. Sample period is 1999-2008. DE ratio is divided by 1000 to reduce the decimal points of coefficients. The accounting - independent variables (*Size* (natural log of total asset), *Revenue/Total Asset*, *DE Ratio*, *Ln(Age in Month)* (natural log of monthly age of firms)) are measured at year t-1. Industry classification follows SET standard. State-owned enterprise equals to 1 if 20% or more of shares of the firm is held by government who is also the biggest shareholder for the year. *CAB Connected* and *REP Connected* are dummy variables which equal to 1 if the firm is considered as the cabinet connected firm for the first one and representative connected firm for another, 0 otherwise. SH-BD cooperation is utilized as the source of connection. The direct connection definition is used for matching the political connection in the first three columns. And the direct or strongly indirect connection definition is used in the next three columns while the direct or indirect connection definition is used in the last three columns. The regressions utilize the OLS method. Robust standard errors are given in the parentheses. *, **, and *** indicate significance at the 10%, 5% and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Tobin's Q	ROA	ROE	Tobin's Q	ROA	ROE	Tobin's Q	ROA	ROE
	Direct connection			Direct or strongly indirect connection			Direct indirect connection		
<i>Constant</i>	1.576*** (0.554)	-0.095 (0.165)	-0.831 (2.450)	1.566*** (0.554)	-0.096 (0.163)	-0.790 (2.387)	1.570*** (0.560)	-0.103 (0.164)	-0.421 (2.110)
<i>CAB Connected</i>	0.394** (0.155)	0.017** (0.008)	1.094 (0.687)	0.314*** (0.115)	0.009 (0.007)	0.901 (0.609)	0.175*** (0.058)	0.004 (0.011)	1.034 (0.695)
<i>REP Connected</i>	-0.038* (0.022)	-0.021** (0.01)	0.647 (0.621)	-0.05** (0.024)	-0.019* (0.011)	0.763 (0.687)	-0.03 (0.03)	-0.02 (0.019)	0.927 (0.796)
<i>Size</i>	0.025 (0.022)	0.001 (0.01)	-0.073 (0.084)	0.026 (0.021)	0.009 (0.007)	0.901 (0.609)	0.027 (0.021)	0.001 (0.01)	-0.094 (0.075)
<i>Revenue/Total Assets</i>	0.067*** (0.017)	0.036*** (0.012)	0.439 (0.352)	0.067*** (0.017)	-0.019* (0.011)	0.763 (0.687)	0.069*** (0.017)	0.036*** (0.012)	0.466 (0.371)
<i>DE Ratio</i>	0.001 (0.002)	-0.002*** (0)	-0.034 (0.044)	0.001 (0.002)	0.009 (0.007)	0.901 (0.609)	0.001 (0.002)	-0.002*** (0)	-0.032 (0.042)
<i>Ln(Age in month)</i>	-0.101*** (0.026)	0.004 (0.005)	0.269 (0.279)	-0.099*** (0.027)	-0.019* (0.011)	0.763 (0.687)	-0.103*** (0.029)	0.005 (0.005)	0.231 (0.246)
<i>State-owned Enterprise</i>	-0.01 (0.054)	0.034 (0.027)	0.301 (0.269)	-0.01 (0.057)	0.009 (0.007)	0.901 (0.609)	0.00 (0.058)	0.031 (0.025)	0.494** (0.203)
<i>Industry-Year Dummies</i>	YES	YES	YES	YES	YES	YES	YES	YES	YES
R ²	15.96%	2.21%	0.94%	15.96%	2.20%	0.95%	15.64%	2.22%	0.98%
Observation	3074	3492	3230	3074	3492	3230	3074	3492	3230

*This table is comparable with Table 5.

Table A7 The political connection and the performances of the firms – Thaksin's regime and non-Thaksin's regime

The dependent variables reported in this table are Tobin's Q ratio, ROA and ROE of firms in each year t . Sample period is 1999-2008. The independent variables used are the same as they are fully shown in Table 4. *CAB Connected* and *REP Connected* are dummy variables which equal to 1 if the firm is considered as the cabinet direct connected firm for the first one and representative direct connected firm for another, 0 otherwise. In this table, the connections are found through SH-BD Cooperation. The direct connection definition is used for matching the political connection. The regressions utilize the OLS method. Robust standard errors are given in the parentheses. *, **, and *** indicate significance at the 10%, 5% and 1% level, respectively. As one can see, the reported table is separated into two parts. The first part displays the coefficients of *CAB Connected* and *REP Connected* when the regression covers the period of Thaksin's regime (2001-2005). And another report the coefficient of the political connection dummies as the model is regressed by using the period of non-Thaksin's regime (1999-2000 and 2007-2008).

		Tobin's Q	ROA	ROE
Thaksin's Regime (2001-2005)	<i>CAB Connected</i>	0.684*** (0.158)	0.023 (0.014)	1.61** (0.801)
	<i>REP Connected</i>	-0.05 (0.036)	-0.032*** (0.012)	0.908 (0.775)
	R ²	21.59%	2.12%	1.37%
	Observation	1556	1820	1670
	<i>CAB Connected</i>	-0.107 (0.084)	0.019** (0.008)	0.159 (0.112)
Non-Thaksin's Regime (1999-2000 & 2007 -2008)	<i>REP Connected</i>	-0.02 (0.035)	0.012** (0.006)	-0.21 (0.258)
	R ²	13.27%	7.59%	2.35%
	Observation	1140	1255	1163

*This table is comparable with Table 6.

BIOGRAPHY

Mr. Subhadanai Subhapholsiri was born on 8th November 1986, in Bangkok. He graduated from Chulalongkorn Demonstration School (Satit Chula School) in the primary and secondary school level. At the undergraduate level, he graduated from the Department of Industrial Engineering, Faculty of Engineering, Chulalongkorn University in May 2008. After that in the same year, he was enrolled in the Master of Science in Finance Program, Chulalongkorn University.



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