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# Big Business Owners in Politics

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This paper investigates a little studied but common mechanism that firms use to obtain state favors: business owners themselves seeking election to top office. Using Thailand as a research setting, we find that the more business owners rely on government concessions or the wealthier they are, the more likely they are to run for top office. Once in power, the market valuation of their firms increases dramatically. Surprisingly, the political power does not influence the financing strategies of their firms. Instead, business owners in top offices use their policy-decision powers to implement regulations and public policies favorable to their firms. Such policies hinder not only domestic competitors but also foreign investors. As a result, these politically connected firms are able to capture more market share. (*JEL* G15, G38, K23, P48)

Many studies highlight the fact that business leaders seek access to political power and use political connections to favor their firms.[1] Most have documented cases where business leaders spend resources to establish "personal relationships" (e.g., friendship, shared educational and work experience, board nominations, and campaign contributions) with public officials. All these mechanisms, however, are indirect. This paper shows that there is also a way that can be used to obtain state favors without any intermediaries, that is, businessmen seeking election to top office themselves.

Big business owners entering politics are not a new or rare phenomenon. Examples of tycoons who have served as country leaders include Tung

[1] See, for example, De Soto (1989), Shleifer and Vishny (1994), Morck, Stangeland, and Yeung (2000), Fisman (2001), Johnson and Mitton (2003), and Faccio (2006).

Chee Hwa (Hong Kong), Thaksin Shinawatra (Thailand), Ferenc Gyurcsany (Hungary), Yulia Tymoshenko (Ukraine), Rafiq Hariri (Lebanon), Silvio Berlusconi (Italy), and Paul Martin (Canada).[2] It is also common for business tycoons to hold cabinet positions. Yet, despite the pervasiveness of business tycoons in politics, very little is known about what drives them to hold top offices.

This paper provides new empirical evidence on the economic incentives enticing big business owners to seek election to top public office. Two issues are examined: (1) the characteristics of the business families whose members decide to run for election to such positions, and (2) the economic outcomes of holding office. Moreover, if connected firms do indeed benefit when their owners take office, what are the exact channels used for acquiring state favors?

Thailand provides an ideal setting to investigate this phenomenon. On January 6, 2001, a group of business tycoons won the general election and formed an administration led by Thaksin Shinawatra. Since this was the first time that a group of tycoons had assumed public office, this event provides a clean experiment that helps ascertain that causality runs from political influence to the private benefits obtained by connected firms. In addition, Thailand's weak institutions were not able to stop the leaders from engaging in rent-seeking activities.

Our framework is based on the private-interest theory of government, which hypothesizes that leaders are self-motivated (Stigler 1971; Becker 1983). Business tycoons who have *de facto* political power have economic incentives to seek *de jure* political power. By holding *de jure* political power, one can use the state to implement discretionary policies to preserve or even expand one's economic power (North 1981; Olson 1982, 2000).

We construct a comprehensive data set that traces ownership through the complex web of corporate pyramids to determine the ultimate owner of each firm. The country's richest families are identified by focusing on the top 2000 firms. The first part of the paper shows that the more tycoons rely on government concessions or the wealthier they are, the more likely they are to run for top office. The results are consistent with the hypothesis that families whose businesses are in regulated industries are considered to have close connections to the state. By attaining top office, they can participate in the regulatory process and have their interests taken into account in policy decisions.

The second part shows that tycoons obtain private benefits after their rise to power. The market valuation of the tycoon families' firms increases astonishingly. The mean ratio of the market-to-book value of equity of these "connected" firms also increases sharply, by 242.16%—from 0.918 prior to the

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[2] There have also been big business owners who ran for top office and failed. For example, Chung Ju-Yung, the founder of the Hyundai industrial empire, ran for the Korean presidency in 1991. In Ecuador, Alvaro Noboa, a banana tycoon, ran in the presidential elections in 1998 and 2002. Sebastian Pinera, one of Chile's richest businessmen, ran for president in 2006.

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tycoons' taking office to 3.141 afterward. When compared with the firms owned by other rich families that did not obtain top office, the connected firms also outperformed their counterpart "non-connected" firms by 160%. The results based on the buy-and-hold returns are also similar.

The final part identifies the mechanisms through which connected firms profit from political advantages. A large number of studies show that political connections affect firm value through preferential access to financing. However, surprisingly, we do not find this to be the case. Connected firms did not borrow more than the benchmark firms.

Instead of beneficial access to financing, several event studies show that state favors were given via legislative changes. Modifications to public policies hindered not only domestic competitors but also foreign investors. Connected firms benefit from tax and license fee cuts, new state contracts, and market entry barriers. Consequently, incumbent connected firms were able to expand their market share by about 50% at the expense of their peers. This evidence suggests that when company owners take a direct role in the regulatory process—directly protecting their self-interests—preferential access to bank credit might not be such an important political favor.

In sum, this study shows that holding public office can be an efficient means of exerting political influence for big business owners whose businesses depend heavily on government contracts. Once in top office, they can use their political power directly to make policy decisions that benefit their business empires. This is the first paper to provide detailed empirical evidence documenting the phenomenon.

Our results are certainly not unique to Thailand and might be generalized to other emerging economies that have weak systems of checks and balances. Weak checks and balances allow leaders to use top office to pursue private interests and may give them incentives to run for top office. In addition, the evidence in this study might also be applied to countries with unstable and corrupt governments. When governments frequently change hands, it may become quite costly to exert influence by establishing and maintaining close relationships with those currently in office. In such a situation, seeking election to top office oneself may be more cost effective. Our analysis can also be generalized to countries in which the leaders have business interests and hence may use public office to expand their businesses. Such leaders are observed worldwide, for example, in Indonesia, Singapore, the Philippines, Malaysia, Taiwan, Cuba, and Equatorial Guinea.

The rest of the paper is organized as follows. Section 1 provides an overview of Thai politics. Section 2 describes the data. Section 3 examines the characteristics of business tycoons who seek election for public office. Section 4 analyzes whether business tycoons use public office to enrich themselves. Section 5 examines the channels through which state favors are granted. Section 6 investigates the outcomes of public policies that were implemented during the rule of the tycoons. Section 7 concludes the paper.

## 1. Politics in Thailand (1932–2005)

Since the end of the absolute monarchy in 1932, Thailand has been an unstable democracy with 17 coups and 15 constitutions. Thai politics was dominated for half a century by military and bureaucratic elites. Civilian governments slowly gained greater authority but were typically short-lived and unstable. In the 1990s, Thailand was ruled by four elected governments.[3] As parliamentary majorities made up of half a dozen parties, all governments rested upon multiparty coalition arrangements. Changes in the alliances between political parties occurred often, resulting in frequent cabinet reshuffles. Each of these governments collapsed when key coalition partners deserted them.

To create a stable democratic system, a new constitution was enacted in 1997. A major reform included the introduction of a party-list system. Specifically, the House of Representatives is made up of 500 members (MPs): 400 MPs are elected by constituencies and 100 MPs are chosen from "party lists" drawn up by each party. The number of constituencies won by each party determines how many from the party list become MPs. The MPs serve a four-year term. The constitution also stipulates that the prime minister must be an elected MP.

The first general election under the 1997 constitution was held on January 6, 2001. The Thai Rak Thai Party (TRT), a new party established in 1998 by a group of tycoons, won 248 out of 500 seats in the House of Representatives. By absorbing several smaller parties, the TRT managed to obtain an absolute majority in the lower house. Accordingly, Thaksin Shinawatra, the TRT leader, became prime minister on February 9, 2001. This government was also unique in that the prime minister and many of the cabinet members were either the founders of big business empires or belonged to families that owned extensive businesses.

The political power of Thaksin Shinawatra's administration, however, appeared to be shaky during the first half of 2001 due to the corruption charge brought against him in late 2000. He was accused of concealing assets while serving in top office in 1997, an alleged violation of the 1997 constitution. A guilty verdict would have forced him to step down and banned him from politics for five years. This was a serious charge. In fact, right after the unofficial voting results both domestic and international media reported that Thaksin might not be allowed to hold office (see, for example, BBC and Reuters, January 5, 2001).

The 1997 constitution sought to bring greater accountability to government and led to the setup of an anti-corruption commission. The commission investigated and indicted a number of incumbent cabinet members. The court upheld every single indictment. The most impressive indictment was against the interior minister Sanan Kachornprasart—one of the most powerful politicians at

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[3] They are namely the governments of Prime Ministers Chuan Leekpai (September 1992 to May 1995), Banharn Silpa-Archa (July 1995 to September 1996), General Chavalit Yongchaiyudh (November 1996 to November 1997), and Chuan Leekpai (November 1997 to February 2001).

the time. The charge brought against him was the same as that against Thaksin. Kachornprasart was indicted and barred from politics for five years.

Thaksin was tried by the court despite being prime minister and the case seemed to develop in a way unfavorable to him. In fact, Thaksin admitted that he was guilty, but only of "an honest mistake" (*The New York Times*, June 19, 2001). He appealed to the court and public to be allowed to continue to serve the country. Finally, in August 2001, in a very close ruling, the court's 15 judges voted 8-7 in favor of dismissing the charge. Therefore, it is reasonable to take August 2001 as the starting point of the Shinawatra administration's effective political power.

From this point onward, this government's hold on power was secure. It was the first civilian government to complete a full four-year term. Most business tycoons in this administration were political neophytes, being elected for the first time. Some had entered politics earlier, but mostly by being appointed to cabinets in the mid-1990s. Their tenures were very brief, as those cabinets were short-lived. As this government assumed political power for the first time, the direction of causality runs primarily from political power to the private benefits obtained by connected firms, rather than the other way around.

## 2. Data

### 2.1 Sample
The sample includes the top 2000 largest companies in Thailand ranked by total assets as of the end of 2000. These data include listed and nonlisted companies. The financial data of listed companies are obtained from Worldscope as of October 2004. Stock prices, stock returns, and stock market index data are collected from Datastream. The Business On Line (BOL) database provides the accounting and ownership information of nonlisted companies. The BOL has a license from the Ministry of Commerce to reproduce the accounting and ownership information of all registered companies. To identify the country's top business tycoons, a database of family trees and their business ownership is constructed.

### 2.2 Ownership data
The ultimate owners of the firms in the sample are traced using the standard approach suggested by La Porta, Lopez-de-Silanes, and Shleifer (1999). The ownership information is obtained from two databases, namely, the I-SIM CD-ROM and the SETSMART online service produced by the Stock Exchange of Thailand (SET). The SET reproduces the data from company annual reports (FM 56-1). These databases provide detailed ownership data that include (1) shareholders with stakes of at least 0.5% and (2) a list of each firm's affiliated companies and shareholdings. Additional ownership data on nonlisted companies are obtained from the BOL database.

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To account for the fact that in Thailand businesses are closely tied to an extended family, all family members, as well as their companies, are treated as a single shareholder. A shareholder, therefore, includes individuals with the same surname as well as close families that are linked to the family by marriage. Surnames in Thailand can be used to trace family relationships because family names are unique by law—only people belonging to a given family may use that particular name. Multiple data sources are used to identify family trees. Annual reports provide the information on the family relationships among the major shareholders as well as the board members. Brooker Group (2001) and Sappaiboon (2000, 2001) provide genealogical diagrams of the top families.

## 3. Determinants of Tycoons' Decisions to Run for Top Offices

What motivates tycoons to pursue high office? We apply the private-interest theory to develop hypotheses regarding the determinants of tycoons' decisions to run for top offices. First, business tycoons are more likely to seek public office if a large part of group revenue is from regulated businesses. As argued by Noll (2000), a regulatory process is inherently conflictual. Market participants, therefore, seek to protect themselves against unfavorable outcomes that reflect effective political influence by others. By holding public office, one is in a position to more effectively participate in the regulatory process and have one's interests taken into account in policy decisions. But business tycoons will have the incentive to invest in the opportunity to hold public office only if the expected benefits to be derived from such a position are large enough to outweigh the cost of running an election campaign.

Second, whether or not a business tycoon runs for a top office depends on family wealth. Wealth might be associated with the incentive to acquire *de jure* political power so that a tycoon can preserve or even expand his economic power (e.g., Acemoglu, Johnson, and Robinson 2005). The greater the corporate assets the tycoon owns, the stronger the incentives to acquire *de jure* political power. In addition, wealth ensures the financial ability of a family to run an election campaign. Wealth may also be a proxy for the social networks of these families, which may be another important factor in achieving political power.

### 3.1 Research methodology
A probit model is used to investigate the characteristics of the business families that seek access to political power. The variables used in the regression model are defined as follows:

**3.1.1 Wealth**  It is measured by the total assets and is the criterion used to define business tycoons in this study. First, we trace the ultimate owners of the top 2000 firms. Second, a family's wealth is calculated by summing up the total

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assets of all firms that are ultimately owned at least 10% by family members.[4] Third, tycoons are defined as the richest 100. As our sample includes only the top 2000 firms, we are likely to underestimate the actual wealth of families that also own small companies. This is only a problem if some families have a disproportionate number of small firms.

### 3.1.2 Tycoons running for public office
They are the tycoons who ran for the House of Representatives in the January 2001 general election. This information is obtained from the website of the Election Commission of Thailand (http://www.ect.go.th). A dummy variable is set to 1 if at least one person from a tycoon family ran in the election and 0 otherwise. This variable is used as the dependent variable in the probit models.

### 3.1.3 Concessionary income
It is used to measure the importance of a family's business in regulated utility industries. The value of the concessions to a family is measured as the ratio of concessionary revenue to total revenue as of 2000. Total revenue of a family group is calculated by summing total revenue of all the firms in the group that appear in the top 2000 companies. The information on concessions and revenue generated by concessions is hand-collected from annual reports.

## 3.2 Characteristics of the top 100 families
Table 1 reports the basic characteristics of the tycoons in our sample. Of the 100 wealthiest families, 13 had a candidate running for top office. We run univariate tests comparing the characteristics of these 13 tycoon families and the other 87 tycoon families. Basically, the results support our hypotheses in terms of wealth and concessionary income. The mean total assets of the 13 candidate families is about USD 4.42 billion, which is significantly larger than the average wealth—USD 486.46 million—held by the other tycoon families. On average, the 13 tycoons obtain about 22.9% of their revenues from concessions, which is significantly more than that of other tycoon families (2.5%). These two groups of tycoons are similar in terms of leverage and profitability, however.

Table 2 summarizes the concessionary income held by the tycoon families. Ten of the thirteen families that had a candidate in the 2001 election held concessions. Most of the concessions were in the telecommunications industry. The concession contracts range from 10 to 35 years. For most of these families, the group's revenue is highly dependent on the concessions. For example, the share of concession revenue to total revenue was 94% for the Shinawatra family and 80.5% for the Bodharamik family.

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[4] As ownership is highly concentrated in the hands of the controlling family, the results do not change when using the 20% ownership cut-off.

**Table 1**
**Characteristics of the tycoon families**

| | | Tycoons running for top office ($N = 13$) | Other tycoons ($N = 87$) | $t$-statistics ($t$-test) | $z$-statistics (Wilcoxon test) |
|---|---|---|---|---|---|
| Concessionary income | Mean | 0.229 | 0.025 | 4.01*** | 4.33*** |
| | [Median] | [0.000] | [0.000] | | |
| Total assets (million USD) | Mean | 4418.46 | 486.46 | 3.88*** | 2.18** |
| | [Median] | [267.03] | [105.50] | | |
| Log (total assets) | Mean | 4.391 | 3.829 | 3.07*** | 2.18** |
| | [Median] | [4.061] | [3.658] | | |
| Number of family members on board | Mean | 7.231 | 5.299 | 2.37*** | 3.06*** |
| | [Median] | [8.000] | [5.000] | | |
| Log (number of family members on board) | Mean | 1.923 | 1.561 | 2.69*** | 3.06*** |
| | [Median] | [2.079] | [1.609] | | |
| Profitability | Mean | 0.024 | 0.028 | −0.07 | −0.36 |
| | [Median] | [0.042] | [0.050] | | |
| Leverage | Mean | 0.395 | 0.496 | −1.03 | −1.02 |
| | [Median] | [0.380] | [0.470] | | |

This table reports characteristics of the top 100 wealthiest families in Thailand. The sample firms include the top 2000 companies in Thailand. A tycoon's firm is a firm in which the family owns 10% or more shares. A tycoon running for top office is defined as any tycoon who ran in the January 2001 general election. Concessionary income is the ratio of concessionary revenue to total revenue. Log (total assets) is the logarithm of total assets. Log (number of family members on board) is the logarithm of the number of family members on board. Leverage is the ratio of total debt to total assets. Profitability is the ratio of EBIT to total assets. The variables are measured at the family level as of 2000. ** and *** denote statistical significance at the 5% and 1% levels, respectively.

### 3.3 Probit results

Table 3 presents the results of probit regressions relating the probability of any given tycoon family running for top office in January 2001 to its business group's characteristics. Consistent with our hypotheses, the estimated coefficients on concessionary income and wealth are positive and strongly significant at the 5% level. The results suggest that the likelihood of business tycoons running for top office is significantly associated with having concessions and family wealth.

The following two robustness checks are conducted. First, in regression (2) in Table 3, two variables, namely group profitability and leverage, are included. We were not able to control for industry effects because these tycoons typically have businesses in many industries (see Polsiri and Wiwattanakantang 2006). Second, in regression (3) in Table 3, one more variable, the number of family members who served on the board, is included. The estimated coefficient on the log number of family members on the board is positive and significant at the 1% level. This result implies that the family groups with more capable members can afford to send one of them to run for top office. While the estimated coefficients on our major variables remain strongly significant, the estimated coefficients on profitability and leverage ratio turn out to be insignificant at conventional levels.

Third, in regressions (4) and (5) in Table 3, we test whether our results are driven by the prime minister's family. As shown in Table 2, the Shinawatra

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**Table 2**
**Concessions held by the tycoon families**

| Family name | Company | Description of the concession | Operating period | Total number of firms owned by the family | Total group revenue | Revenue structure | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Revenue from concessions | | Revenue from other businesses | |
| | | | | | million USD | million USD | % of total group | million USD | % of total group |
| Bencharongkul | Total Access Commu. | 800 and 1800 MHz mobile phone | 1991–2018 | 28 | 712.14 | 695.54 | 97.7 | 16.60 | 2.3 |
| | United Communication | Trunked mobile system | 1993–2008 | | | | | | |
| | United Communication | Mobile data communication services | 1994–2014 | | | | | | |
| | United Communication | Cable television services | 1996–2021 | | | | | | |
| | United Communication | Broadband transmission services | 1998–2023 | | | | | | |
| Bodharamik | TT & T | 1.5 million fixed line in provinces | 1992–2018 | 20 | 284.14 | 228.69 | 80.5 | 55.45 | 19.5 |
| | Jasmine International | TDMA and ISBN satellite network | 1990–2005 | | | | | | |
| | Jasmine International | Submarine optical fibre cable system | 1991–2012 | | | | | | |
| | Jasmine International | Data satellite transmission system | 1998–2020 | | | | | | |
| | Jasmine International | Internet services | N/A | | | | | | |
| Jiaravanont | Telecom Asia Corp. | 2.6 million fixed line in the Bangkok area | 1991–2016 | 69 | 3047.32 | 532.70 | 17.5 | 2514.62 | 82.5 |
| | United Broadcasting | Subscription television services | 1989–2014 | | | | | | |
| | United Broadcasting | Hybrid coaxial cable network television | 1994–2019 | | | | | | |
| Kanjanapas | Tanayong | BTS Bangkok sky train | 1999–2029 | 10 | 287.13 | 42.97 | 15.0 | 244.16 | 85.0 |
| Maleenont | BEC World | Television broadcasting | 1988–2020 | 27 | 150.08 | 110.58 | 73.7 | 39.50 | 26.3 |
| Shinawatra | Advanced Info Service | 900 MHz and GSM mobile telephone | 1990–2015 | 24 | 1078.71 | 1013.97 | 94.0 | 64.74 | 6.0 |
| | Advanced Info Service | Digital display paging services | 1990–2005 | | | | | | |
| | Advanced Info Service | Online data communication services | 1997–2022 | | | | | | |
| | Shin Satellite | Commercial satellite operations | 1991–2021 | | | | | | |
| | Shin Satellite | Internet services | 1994–2007 | | | | | | |
| | Shin Satellite | Mobile telephone network in Cambodia | 1993–2028 | | | | | | |
| | ITV | Television broadcasting (UHF) | 1995–2025 | | | | | | |
| | Shin Corporation | Telephone directory publishing | 1991–2006 | | | | | | |
| | Shin Corporation | 1800 MHz mobile telephone | 1998–2013 | | | | | | |

*(continued overleaf)*

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**Table 2**
**(Continued)**

| Family name | Company | Description of the concession | Operating period | Total number of firms owned by the family | Total group revenue | Revenue from concessions | | Revenue from other businesses | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | million USD | million USD | % of total group | million USD | % of total group |
| Teepsuwan | Lanna Lignite | Coal mining | N/A | 16 | 394.91 | 52.30 | 13.2 | 342.61 | 86.8 |
| | Lanna Lignite | Power generation | N/A | | | | | | |
| Trivisvavet | Bangkok Expressway | Expressway Phase 2 | 1990–2020 | 25 | 277.89 | 128.34 | 46.2 | 149.56 | 53.8 |
| Vilailuck | Samart Telecoms | Satellite communication network | 1995–2017 | 29 | 130.21 | 60.47 | 46.4 | 69.74 | 53.6 |
| | Samart Telecoms | Satellite phone services in rural area | 1996–2006 | | | | | | |
| | Samart Corporation | Paging services | N/A | | | | | | |
| | Samart Corporation | Internet services | 1996–2006 | | | | | | |
| | Samart Corporation | NMT 900 mobile telephone in Cambodia | 1992–2027 | | | | | | |
| Wongkusolkit | Banpu | Coal and minerals mining | 1974–N/A | 48 | 292.74 | 75.44 | 25.8 | 217.30 | 74.2 |
| | Banpu | Coal and minerals mining in Indonesia | 1994–2024 | | | | | | |
| | Banpu | Port operation | 1996–2021 | | | | | | |
| | Banpu | Power generation | 2000–2020 | | | | | | |
| | Banpu | Power generation in Vietnam | 1999–2029 | | | | | | |

This table reports concession contracts held by the firms owned by the tycoon families as of 2000. The data are obtained from company annual reports (FM 56-1).

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**Table 3**
**Determinants of tycoons' choice of whether to run for top offices**

| | Full sample | | | Excluding the prime minister's family | |
|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) |
| Concessionary income | 1.758** | 1.957** | 2.489*** | 1.797** | 2.314** |
| | (2.20) | (2.46) | (2.67) | (2.04) | (2.20) |
| Log (total assets) | 0.463* | 0.491** | | 0.484** | |
| | (1.82) | (2.00) | | (1.96) | |
| Log (number of family members on board) | | | 1.163*** | | 1.155*** |
| | | | (2.85) | | (2.83) |
| Profitability | | −1.334 | −1.344 | −1.305 | −1.315 |
| | | (−1.47) | (−1.49) | (−1.44) | (−1.45) |
| Leverage | | −1.016 | −0.787 | −0.986 | −0.754 |
| | | (−1.34) | (−1.04) | (−1.30) | (−1.00) |
| Constant | −3.144*** | −2.767*** | −2.990*** | −2.749*** | −2.975*** |
| | (−2.95) | (−2.87) | (−3.90) | (−2.84) | (−3.90) |
| Number of observations | 100 | 100 | 100 | 99 | 99 |
| Pseudo $R^2$ | 0.165 | 0.202 | 0.253 | 0.161 | 0.216 |
| Log pseudo-likelihood | −32.28 | −30.84 | −28.86 | −30.66 | −28.67 |

This table reports the coefficient estimates of probit regressions of the tycoons' choice whether to run for top offices. The dependent variable is a dummy variable that takes on a value of 1 if at least one person from a family ran in the January 2001 general election, and 0 otherwise. The sample includes the top 100 wealthiest families in Thailand. Concessionary income is the ratio of concessionary revenue to total revenue. Log (total assets) is the logarithm of total assets. Log (number of family members on board) is the logarithm of the number of family members on board. Leverage is the ratio of total debt to total assets. Profitability is the ratio of EBIT to total assets. The variables are measured at the family level as of 2000. Numbers in parentheses are $z$-statistics from heteroskedasticity-robust standard errors with clustering at the family level. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

family was wealthier and had a greater concessionary income than most other families. We exclude four firms that are owned by the Shinawatras from our sample and rerun the probit regression. The results are qualitatively very similar to the regression results based on the full sample. The estimated coefficients on the concession and wealth variables remain strongly significant at the 5% level. In addition, the explanatory power of the regressions (4) and (5) is virtually identical to regressions (2) and (3), which include the firms owned by the Shinawatras. All the evidence, therefore, shows that our results are not due primarily to the prime minister's family.

## 4. Political Favors to Connected Firms

The previous section investigates an *ex ante* event and shows that tycoons had economic incentives for holding top office. To further substantiate this finding, we investigate an *ex post* event, that is, once tycoons took office, did they use public office to benefit their connected firms? The private-interest hypothesis predicts that by holding *de jure* political power, tycoons can be very influential and can direct public resources to themselves. In addition, tycoons holding office can use state power to implement laws and regulations and even influence institutional development to limit or handicap competitors. Such policies include barriers to entry, restrictions to international trade and

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capital flow, limitations on financial development, and weak property rights. Our hypothesis, therefore, predicts that if tycoons-cum-leaders pursue private interests, firms owned by their families should enjoy greater market valuations and market power.

However, the public-interest hypothesis suggests that leaders pursue policies that maximize social welfare (e.g., Stiglitz 1989). There are two possible scenarios. First, the market expects that the economy in general would become better off under the rule of the talented tycoons. Then, the stock market reaction would be *equally* positive for all firms. Second, minority shareholders expect that controlling shareholders would use firm resources to achieve their political objectives, without direct gains to the firms. Then, the market valuation of these politically connected firms would fall or be lower than those of other firms.

The following analysis measures the market value of the firms owned by the tycoons who become political leaders, *tycoons-cum-leaders* or TCLs.

### 4.1 Classification of sample firms

TCLs are defined as business tycoons who were in Thaksin Shinawatra's cabinets during 2001–2003.[5] This information is available at the Secretariat of the Cabinet's website at http://www.cabinet.thaigov.go.th. A TCL firm is a firm owned by a TCL family.

A firm is owned by a family if the family is the largest shareholder and owns at least 10% of the shares. The cut-off choice is based on the literature (e.g., La Porta, Lopez-de-Silanes, and Shleifer 1999). By holding this level of ownership, a family should have sufficient voting rights to control the firm. In addition, by holding this level of cash-flow rights, the controlling shareholder should have sufficient incentive to bring economic rents to the firm. Note that in Thai firms, the cash-flow rights are not significantly different from the voting rights because the controlling family typically uses direct ownership to control the firm.

The remaining non-TCL firms are further classified into *tycoon firms* and *other firms*.

Tycoon firms are defined as firms owned by one of the 100 wealthiest families (as defined in Section 3.1) who are not TCLs. Similar to the TCLs, these top tycoons are wealthy, with extensive social networks, and well connected to the power structure.

Other firms are firms that do not fall into any of the previous categories.

### 4.2 Firm characteristics: TCL firms vs. non-TCL firms

This section analyzes market valuation of listed firms for which the stock prices are available. The sample excludes 12 financially distressed firms that were not

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[5] All the tycoons who entered the 2001 general election race were elected. They either ran and won the election outright or were selected from the party lists. There were four people who were members of opposition parties. Therefore, they are not considered as TCLs.

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traded during 2001–2003 and 7 firms that have negative book value of equity. The final sample consists of 286 nonfinancial firms.

Panel A of Table 4 shows the distribution of sample firms by industry. Industries are defined following Campbell (1996). The number of TCL firms is 19 in 2000 and 2001, 21 in 2002, and 23 in 2003. These firms are controlled by eight TCL families. TCL firms appear in all industries except petroleum and services industries. These TCL firms are relatively large, accounting for 14.6% of total market capitalization and 21.3% of the equity market capitalization of all firms in our sample.

Panel B of Table 4 presents the ownership structure of the TCL firms. The TCLs typically own large stakes in the affiliated firms. On average, cash-flow rights owned by TCL families are 29.0% in 2000 and 2001, 30.41% in 2002, and 31.60% in 2003. Similarly, in unreported results, non-TCL firms also have concentrated ownership in the hands of controlling shareholders. The means of cash-flow and voting rights are more than 40%. So, using higher ownership cut-offs, such as 20%, does not alter the substantive results of this paper.[6]

Table 5 presents the univariate tests comparing the characteristics of TCL firms, tycoon firms, and other firms using the data as of 2000. TCL firms are quite similar to non-TCL firms in terms of profitability, market valuation, market share, investment, and financing structure. The only difference is that TCL firms were significantly larger than non-TCL firms in terms of total assets and sales.

### 4.3 The effect of political power on market valuation

Two methodologies are employed to test the effect of political power on market valuation after TCLs took office. The first methodology measures market valuation using portfolio analysis. The second methodology is a difference-in-differences estimation approach.

### 4.3.1 Buy-and-hold abnormal returns

We estimate buy-and-hold abnormal returns (BHARs) using the standard approach suggested by Barber and Lyon (1997) and Lyon, Barber, and Tsai (1999). This methodology has several advantages. First, it allows us to observe the pattern of the market-value accumulation during the period in power. Second, we can estimate the value of political power conditional on all relevant information that is revealed slowly over time. However, this approach has shortcomings. Estimated returns may reveal information related to firms' prospects besides the value of political connections.

We calculate the BHARs earned by investors who buy and hold TCL firms and compare them with the two groups of local non-TCL firms: *tycoons* and

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[6] See Section 4.4 for robustness tests regarding this issue.

**Table 4**
**The sample**

**Panel A: Distribution of the sample firms by industry**

| Industry classification | 2000 TCL firms No. | % | 2000 Tycoon firms No. | % | 2000 Other firms No. | % | 2001 TCL firms No. | % | 2001 Tycoon firms No. | % | 2001 Other firms No. | % | 2002 TCL firms No. | % | 2002 Tycoon firms No. | % | 2002 Other firms No. | % | 2003 TCL firms No. | % | 2003 Tycoon firms No. | % | 2003 Other firms No. | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Petroleum | 0 | 0.0 | 2 | 1.9 | 3 | 2.7 | 0 | 0.0 | 2 | 1.9 | 4 | 3.3 | 0 | 0.0 | 2 | 1.8 | 4 | 3.0 | 0 | 0.0 | 2 | 1.8 | 5 | 3.3 |
| Consumer durables | 1 | 5.3 | 14 | 13.3 | 19 | 17.1 | 1 | 5.3 | 14 | 13.1 | 21 | 17.5 | 1 | 4.8 | 14 | 12.8 | 23 | 17.2 | 1 | 4.3 | 14 | 12.6 | 27 | 17.8 |
| Basic industry | 3 | 15.8 | 13 | 12.4 | 18 | 16.2 | 3 | 15.8 | 13 | 12.1 | 19 | 15.8 | 3 | 14.3 | 13 | 11.9 | 20 | 14.9 | 3 | 13.0 | 13 | 11.7 | 22 | 14.5 |
| Food/tobacco | 1 | 5.3 | 17 | 16.2 | 16 | 14.4 | 1 | 5.3 | 17 | 15.9 | 17 | 14.2 | 1 | 4.8 | 17 | 15.6 | 18 | 13.4 | 2 | 8.7 | 17 | 15.3 | 19 | 12.5 |
| Construction | 3 | 15.8 | 14 | 13.3 | 7 | 6.3 | 3 | 15.8 | 13 | 12.1 | 8 | 6.7 | 3 | 14.3 | 14 | 12.8 | 9 | 6.7 | 3 | 13.0 | 15 | 13.5 | 10 | 6.6 |
| Capital goods | 0 | 0.0 | 2 | 1.9 | 7 | 6.3 | 0 | 0.0 | 3 | 2.8 | 8 | 6.7 | 1 | 4.8 | 4 | 3.7 | 8 | 6.0 | 1 | 4.3 | 3 | 2.7 | 8 | 5.3 |
| Transportation | 1 | 5.3 | 1 | 1.0 | 3 | 2.7 | 1 | 5.3 | 1 | 0.9 | 4 | 3.3 | 1 | 4.8 | 1 | 0.9 | 4 | 3.0 | 1 | 4.3 | 1 | 0.9 | 5 | 3.3 |
| Utilities | 6 | 31.6 | 3 | 2.9 | 4 | 3.6 | 6 | 31.6 | 3 | 2.8 | 4 | 3.3 | 7 | 33.3 | 3 | 2.8 | 5 | 3.7 | 7 | 30.4 | 5 | 4.5 | 7 | 4.6 |
| Textiles/trade | 2 | 10.5 | 20 | 19.0 | 9 | 8.1 | 2 | 10.5 | 20 | 18.7 | 9 | 7.5 | 2 | 9.5 | 20 | 18.3 | 10 | 7.5 | 2 | 8.7 | 20 | 18.0 | 10 | 6.6 |
| Services | 0 | 0.0 | 3 | 2.9 | 11 | 9.9 | 0 | 0.0 | 5 | 4.7 | 12 | 10.0 | 0 | 0.0 | 5 | 4.6 | 12 | 9.0 | 0 | 0.0 | 5 | 4.5 | 17 | 11.2 |
| Leisure | 2 | 10.5 | 11 | 10.5 | 11 | 9.9 | 2 | 10.5 | 11 | 10.3 | 11 | 9.2 | 2 | 9.5 | 11 | 10.1 | 14 | 10.4 | 2 | 8.7 | 11 | 9.9 | 15 | 9.9 |
| Real estate | 0 | 0.0 | 5 | 4.8 | 3 | 2.7 | 0 | 0.0 | 5 | 4.7 | 3 | 2.5 | 0 | 0.0 | 5 | 4.6 | 7 | 5.2 | 1 | 4.3 | 5 | 4.5 | 7 | 4.6 |
| Total | 19 | 100.0 | 105 | 100.0 | 111 | 100.0 | 19 | 100.0 | 107 | 100.0 | 120 | 100.0 | 21 | 100.0 | 109 | 100.0 | 134 | 100.0 | 23 | 100.0 | 111 | 100.0 | 152 | 100.0 |

**Panel B: Ownership structure of TCL firms**

| | 2000 Mean | Median | 2001 Mean | Median | 2002 Mean | Median | 2003 Mean | Median |
|---|---|---|---|---|---|---|---|---|
| Cash-flow rights (%) | 29.0 | 29.9 | 29.0 | 26.9 | 30.4 | 25.2 | 31.6 | 27.6 |
| Control rights (%) | 31.4 | 33.4 | 32.3 | 31.8 | 34.9 | 31.1 | 36.2 | 40.9 |

This table reports the description of the sample firms. The sample firms include nonfinancial firms listed on the Stock Exchange of Thailand. Panel A reports the distribution of the sample firms by industry. Panel B reports the ownership structure of TCL firms. TCL firms are the firms owned by the tycoons who are in top offices. Tycoon firms are the firms owned by the tycoons who are not in top offices. Other firms are neither TCL firms nor tycoon firms. The industries are defined following Campbell (1996).

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**Table 5**
**Firm characteristics as of 2000**

| | TCL firms (N = 19) | | Tycoon firms (N = 105) | | Other firms (N = 111) | | TCL firms - Tycoon firms | | TCL firms - Other firms | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mean | Median | Mean | Median | Mean | Median | t-statistics (t-test) | z-statistics (Wilcoxon test) | t-statistics (t-test) | z-statistics (Wilcoxon test) |
| **MARKET-TO-BOOK RATIO** | | | | | | | | | | |
| Market-to-book ratio (MB) | 0.964 | 0.671 | 0.711 | 0.645 | 0.785 | 0.616 | 1.28 | 0.24 | 0.74 | 0.04 |
| Industry-adjusted MB | 0.337 | 0.060 | 0.132 | 0.005 | 0.201 | 0.010 | 1.11 | 0.48 | 0.60 | 0.19 |
| **MARKET SHARE** | | | | | | | | | | |
| Firm's sales/total industry sales | 0.268 | 0.181 | 0.305 | 0.206 | 0.275 | 0.173 | -0.43 | -0.50 | -0.08 | 0.05 |
| **PROFITABILITY** | | | | | | | | | | |
| Return on assets (EBIT/total assets) | 0.033 | 0.050 | 0.074 | 0.080 | 0.070 | 0.074 | -1.36 | -1.00 | -1.03 | -1.03 |
| Industry-adjusted return on assets | -0.023 | -0.004 | 0.008 | 0.007 | 0.003 | 0.016 | -1.10 | -0.67 | -0.72 | -0.90 |
| Profit margin (EBIT/total sales) | 0.051 | 0.087 | 0.079 | 0.095 | 0.055 | 0.079 | -0.42 | -0.32 | -0.04 | 0.03 |
| Industry-adjusted profit margin | -0.011 | 0.039 | 0.033 | 0.023 | -0.005 | 0.012 | -0.67 | -0.15 | -0.06 | 0.39 |
| **LEVERAGE** | | | | | | | | | | |
| Total debt/total assets | 0.323 | 0.286 | 0.347 | 0.357 | 0.309 | 0.302 | -0.34 | -0.52 | 0.19 | 0.02 |
| Industry-adjusted total debt/total assets | -0.080 | -0.146 | -0.034 | -0.035 | -0.071 | -0.054 | -0.63 | -0.63 | -0.12 | -0.14 |
| **DEBT MATURITY** | | | | | | | | | | |
| Long-term debt/total debt | 0.515 | 0.675 | 0.351 | 0.229 | 0.381 | 0.323 | 1.63 | 1.30 | 1.35 | 1.29 |
| Industry-adjusted long-term debt/total debt | 0.171 | 0.169 | 0.061 | -0.002 | 0.063 | 0.030 | 1.03 | 1.25 | 1.17 | 1.20 |
| **CAPITAL EXPENDITURES** | | | | | | | | | | |
| Capital expenditure/total assets | 0.031 | 0.028 | 0.044 | 0.025 | 0.052 | 0.031 | -0.86 | 0.03 | -1.24 | -0.86 |
| Industry-adjusted capital expenditure/total assets | 0.006 | 0.002 | 0.016 | 0.000 | 0.024 | 0.004 | -0.69 | 0.17 | -1.05 | -0.58 |
| **OTHER CHARACTERISTICS** | | | | | | | | | | |
| Total assets (million USD) | 301.98 | 125.51 | 150.95 | 63.73 | 193.73 | 26.27 | 1.90* | 0.67 | 0.61 | 2.20** |
| Net sales (million USD) | 200.89 | 57.26 | 89.33 | 48.26 | 209.09 | 26.19 | 2.34** | 0.17 | -0.04 | 1.09 |
| Growth on assets | 0.088 | 0.060 | 0.034 | 0.035 | 0.040 | 0.019 | 0.98 | 0.49 | 0.80 | 0.79 |
| Fixed assets/total assets | 0.461 | 0.420 | 0.428 | 0.390 | 0.466 | 0.490 | 0.49 | 0.58 | -0.09 | -0.20 |

This table reports the summary statistics of the sample firms as of 2000. The sample firms include nonfinancial firms listed on the Stock Exchange of Thailand. TCL firms are the firms owned by the tycoons who are in top offices. Tycoon firms are the firms owned by the tycoons who are not in top offices. Other firms are neither TCL firms nor tycoon firms. * and ** denote statistical significance at the 10% and 5% levels, respectively.

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*other firms.* The BHAR for a firm $i$ is defined as

$$BHAR_{iT} = \left[\prod_{t=1}^{T}(1 + R_{it})\right] - \left[\prod_{t=1}^{T}(1 + R_{mt})\right],$$

where $R_{it}$ is the monthly return for firm $i$ in month $t$. $R_{mt}$ is the national market value-weighted index return, which is the rate of return on the Datastream General Market Index.

BHARs are calculated for two windows: pre-election and post-election periods. In the pre-election window, we calculate BHARs for each firm over consecutive monthly periods: 12 months prior to the month when the election campaign began (November 2000). In the post-election window, we compute three sets of BHARs for each firm over consecutive monthly periods: 12 months, 24 months, and 36 months from November 2000. Average BHARs are calculated using an equal-weighting method.

Monthly stock returns (dividend included) are obtained from Datastream. If a sample firm is delisted before the end of the calculation period, the BHAR of that particular firm is calculated using the available return data from Datastream. Fourteen firms that have a mean 36-month BHAR of greater than 1000% are excluded from the sample.

To eliminate the skewness bias when long-run abnormal returns are calculated, we use block-bootstrapped skewness-adjusted $t$-statistics, as suggested by Lyon, Barber, and Tsai (1999) and Mitchell and Stafford (2000). To bootstrap the distribution, 1000 resamples from the original sample are drawn, the abnormal returns produce the skewness-adjusted $t$-statistics using each resample, and the critical values are then calculated.

Table 6 presents the results. Panel A compares BHARs of TCL firms with those of tycoon firms and other firms. First, we test whether prior to the election there were any significant differences in long-term abnormal returns across the portfolios. The results show that the average 12-month BHARs prior to the election for TCL firms are 26.3%, while BHARs for tycoon firms and other firms are 35% and 44.6%, respectively. The univariate tests show that BHARs for TCL firms are not significantly different from those of tycoon firms and other firms.

Second, we compare the performance of these three portfolios after the election. The results show that during the first 12 months after the election, the mean BHARs for TCL firms are not statistically significantly different from the mean BHARs for the portfolios of tycoon firms and other firms. From this point onward, however, TCL firms earn extraordinary returns and significantly outperform non-TCL firms. The mean 24-month BHARs for the portfolio of TCL firms are 82.5%, which are significantly higher than the mean BHARs for the portfolio of tycoon firms, by 57.3%, and other firms, by 47.5%. The returns at the 36-month holding period on TCL firms are even more remarkable. The mean BHARs for TCL firms are 260%, while the mean BHARs for tycoon

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firms and other firms are 41.7% and 38.3%, respectively. The mean differences are strongly significant at the 1% level.[7]

In summary, the results show that the mean BHARs for TCL firms are not greater than those of non-TCL firms during the first 12 months but are significantly greater afterward. This finding supports our conjecture in Section 1. Investors appear to have believed that the political power of the TCLs was shaky during their first year in office due to the corruption allegations. But, once the TCLs' political power became secure, TCL firms experienced extraordinarily high returns.

Two sets of tests are conducted to check the robustness of these results. In the first test, we compare TCL firms with international firms matched by industry. One concern is that TCL firms are quite concentrated in telecommunications and this industry was a hot industry over the same period that TCLs held top office. Our findings, therefore, might simply be pure coincidence and not reflect the market value of holding political power. To disentangle the "political power" effect from the "hot industry" effect, a control portfolio representing the telecommunications industry's normal returns is constructed. This portfolio is selected by matching TCL firms with groups of firms drawn from countries in the same region based on two-digit Standard Industrial Classification (SIC) codes. These countries are Indonesia, Hong Kong, Korea, Malaysia, the Philippines, Singapore, and Taiwan. These countries also experienced growth similar to Thailand's during this period. Appendix 1 shows the composition of firms in the portfolio.

The results shown in Panel B of Table 6 cast doubt on the political power effect. Consistent with the results from Panel A, TCL firms do not outperform international firms during the first year in top office. The mean 24-month BHARs for the portfolio of TCL firms are 73.4% higher than this benchmark portfolio. When the horizon is extended to three years, we observe a dramatic increase (250.4%) in abnormal returns for TCL firms over the benchmark firms. The results based on three-digit SIC codes are similar.

In the second test, we run four sets of regressions using the four abnormal returns as the dependent variables: the mean 12-month BHARs prior to the election, and the mean 12-month, 24-month, and 36-month BHARs after the election. Two dummy variables indicating the firm's ownership are included in the regressions: *TCL* and *other firms*. *TCL* indicates a firm owned by a TCL family. The variable, *other firms*, indicates the firms that are not owned by a TCL or other tycoons. So, the benchmark firms here are tycoon firms.

A set of variables is introduced in the regression to control for firm-specific characteristics. Size is measured as the logarithm of total assets. Leverage is defined as the ratio of total debt to total assets. The ratio of fixed assets to total

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[7] In unreported tests, the results are robust to alternate BHARs measures using value-weighted averages. We compute the value weights based on market capitalizations and find that the value-weighted BHARs are generally lower than equal-weighted ones. For example, the BHARs of TCL firms, tycoon firms, and other firms over the first two years after the election are 67.6%, 25%, and 11.8%, respectively.

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assets captures the asset tangibility effect. Asset growth is the annual growth rate of total assets. The ratio of earnings before interest and taxes (EBIT) to total assets captures the firm's profitability effect on market valuation. Concessionary income is the ratio of concessionary revenue to total revenue. To ensure that the results are not driven predominantly by industry membership, we include 11 industry dummy variables in the regressions. The control variables are measured at the end of 2000. All regression models are estimated using the OLS method with standard errors clustered at the firm level. The *t*-statistics computed using the clustered standard errors are, therefore, adjusted for heteroskedasticity and robust-to-inherent correlation in the long-run returns within a cluster.

Table 7 presents the results. The regression results are consistent with the findings in Table 6. The estimated coefficient on the *TCL* dummy is not significant in regressions (1) and (2) but is strongly significant at the 5% and 1% levels in regressions (3) and (4), respectively. The results indicate that the mean 24-month and 36-month BHARs for the portfolio of TCL firms are 69.5% and 230% higher than those of *tycoon firms*.

**4.3.2 Market-to-book ratio** This section uses difference-in-differences (DD) estimation to compare the market valuation of the three types of firms around the period when TCLs took office. If political power had no value, there would be no difference in performance across the three types of firms. As shown in Section 1 and the BHAR results in the previous section, 2001 is considered the starting point of TCLs attaining effective political power. Therefore, we compare the average market valuation of firms for the two years before TCLs assumed power (2000 and 2001) with that of two years after (2002 and 2003).[8] The market valuation is measured by the ratio of market value of equity to book value of equity (MB).

Table 8A reports the results. Prior to TCLs assuming power, MBs for the three groups of firms were not statistically different. But, once the TCLs assumed power, TCL firms experienced an extraordinary increase in average MB ratios: from 0.918 to 3.141—a 242.16% gap, significant at the 5% level. The DD estimates suggest that TCL firms experienced a sharp increase in MB ratios— 1.574 points more than tycoon firms and 1.691 points more than other firms. Economically, this difference is very large, indicating about a 160% gain over the average MB ratios for tycoon firms (0.82) and for other firms (0.909).

In unreported results, DD analysis is conducted using industry-adjusted MB ratios. The industry-adjusted MB ratio is calculated by taking the difference between the MB ratio for each firm and the median of its industry. Industries are defined following Campbell (1996). We find similar results to those presented in Table 8A, which rules out the argument that industry factors are the driving

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[8] An alternative method is to use the data of each point in time instead of using the mean value. However, the advantage of using the mean value is that this methodology can alleviate the possibility of obtaining underestimated standard errors if there are strong year-to-year correlations between market valuation (Bertrand, Duflo, and Mullainathan 2004).

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**Table 6**
**Buy-and-hold abnormal returns**

Panel A: Domestic benchmark portfolios

| | TCL firms | Tycoon firms | | Other firms | |
|---|---|---|---|---|---|
| | BHARs (I) | BHARs (II) | Difference (I)−(II) | BHARs (III) | Difference (I)−(III) |
| Pre-election period: | | | | | |
| 12-month holding period | 0.263 | 0.350 | −0.087 (0.74) | 0.446 | −0.183 (1.15) |
| Post-election period: | | | | | |
| 12-month holding period | 0.445 | 0.215 | 0.230 (1.31) | 0.239 | 0.206 (1.32) |
| 24-month holding period | 0.825 | 0.252 | 0.573** (2.23) | 0.350 | 0.475* (1.80) |
| 36-month holding period | 2.600 | 0.417 | 2.183*** (3.46) | 0.383 | 2.217*** (3.79) |

Panel B: Regional benchmark portfolios

| | TCL firms | Two-digit SIC code matching firms | | Three-digit SIC code matching firms | |
|---|---|---|---|---|---|
| | BHARs (I) | BHARs (II) | Difference (I)−(II) | BHARs (III) | Difference (I)−(III) |
| Post-election period: | | | | | |
| 12-month holding period | 0.445 | 0.061 | 0.384 (1.50) | 0.027 | 0.418 (1.56) |
| 24-month holding period | 0.825 | 0.091 | 0.734* (1.74) | −0.035 | 0.860** (2.00) |
| 36-month holding period | 2.600 | 0.096 | 2.504** (2.03) | −0.036 | 2.636** (2.23) |

This table reports the mean equally weighted buy-and-hold abnormal returns (BHARs). The pre-election period is defined as the 12 months prior to the campaign starting date (November 2000). The post-election period is defined as the 12 months, 24 months, and 36 months following the campaign starting date. TCL firms are the firms owned by the tycoons who are in top offices. Tycoon firms are the firms owned by the tycoons who are not in top offices. Other firms are neither TCL firms nor tycoon firms. Regional benchmark portfolios include the matching listed firms from Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Korea, and Taiwan. Numbers in parentheses are bootstrapped skewness-adjusted $t$-statistics. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

forces behind the large increases in firm valuation of connected firms. The DD estimate suggests that the average industry-adjusted MB ratio for TCL firms increases 1.408 and 1.554 points more than those of tycoon firms and other firms, respectively. The estimates are statistically significant at conventional levels.

For a further robustness check, we run OLS regressions using size, leverage, and asset growth as the control variables. The average values of the MB ratio for the two years before and after TCLs assumed power are used as the dependent variables. We create a dummy variable, *AFTER*, which takes a value of 1 in the period after TCLs took office, 0 otherwise. The interaction of *TCL* and *AFTER* is our key variable of interest.

Table 8B presents the regression results, which are in line with those of Table 8A. The estimated coefficients on the interaction variable *TCL\*AFTER*

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**Table 7**
**Buy-and-hold abnormal returns: regression analysis**

| | Pre-election period | Post-election period | | |
|---|---|---|---|---|
| | 12-month BHARs (1) | 12-month BHARs (2) | 24-month BHARs (3) | 36-month BHARs (4) |
| TCL | −0.093 | 0.340 | 0.695** | 2.300*** |
| | (−0.76) | (1.24) | (2.52) | (3.85) |
| Other firms | 0.082 | −0.067 | −0.063 | −0.451 |
| | (0.93) | (−0.79) | (−0.42) | (−1.39) |
| Concessionary income | −0.373*** | 0.076 | −0.352 | −0.977 |
| | (−2.74) | (0.35) | (−0.79) | (−1.01) |
| Size | −0.016 | −0.095 | −0.104 | −0.032 |
| | (−0.28) | (−1.32) | (−0.77) | (−0.11) |
| Leverage | 0.221 | 0.033 | −0.144 | −0.235 |
| | (1.07) | (0.21) | (−0.64) | (−0.48) |
| Fixed assets/total assets | −0.453*** | 0.172 | 0.296 | 0.126 |
| | (−3.07) | (0.94) | (0.95) | (0.19) |
| Asset growth | 0.0001*** | −0.0001 | −0.0002 | −0.0004 |
| | (5.83) | (−1.54) | (−1.02) | (−0.95) |
| Profitability | 0.727** | 0.034 | 0.254 | 0.711 |
| | (2.23) | (0.06) | (0.53) | (0.68) |
| Constant | −0.199 | 1.000** | 1.289 | 2.369 |
| | (−0.72) | (1.98) | (1.51) | (1.28) |
| Industry dummies | Yes | Yes | Yes | Yes |
| Number of observations | 224 | 224 | 224 | 224 |
| Adjusted $R^2$ | 0.173 | 0.223 | 0.199 | 0.251 |

This table reports the coefficient estimates of OLS regressions. The dependent variable is the buy-and-hold abnormal returns (BHARs). *TCL* is a dummy variable that takes on a value of 1 if the firm is owned by the tycoons who are in top offices, and 0 otherwise. *Other firms* is a dummy variable that takes on a value of 1 if the firm is not a TCL firm and a tycoon firm, and 0 otherwise. Concessionary income is the ratio of concessionary revenue to total revenue. Size is the logarithm of total assets. Leverage is the ratio of total debt to total assets. Fixed assets/total assets is the ratio of net fixed assets to total assets. Asset growth is the one-year growth rate in total assets. Profitability is the ratio of EBIT to total assets. The control variables are measured at the firm level as of 2000. Numbers in parentheses are $t$-statistics from heteroskedasticity-robust standard errors with clustering at the firm level. ** and *** denote statistical significance at the 5% and 1% levels, respectively.

are positive and strongly significant in both models at the 5% level and are close in magnitude to the DD estimates. On average, MB ratios for TCL firms increased about 1.5 points relative to those of tycoon firms after the TCLs took office.

Interestingly, while the estimated coefficients on *TCL\*AFTER* are strongly significant, none of the control variables is statistically significant. This evidence indicates that the political power effect is very strong in explaining the variation in market valuation while other firm-specific effects do not appear to.

Overall, our results show that TCL firms exhibit both economically and statistically significant increases in market valuation. These results are consistent with the hypothesis that TCLs use public office to further their private interests.

### 4.4 Robustness checks

A series of tests are conducted to check the robustness of our results.

1. We test whether the results are mainly driven by the firms owned by the family of the prime minister. We replicate the market valuation analysis in Sections 4.3.1 and 4.3.2 but exclude four firms whose largest shareholder is the

**Table 8A**
**Market-to-book ratio**

| | Before (Avg. 2000–2001) (I) | After (Avg. 2002–2003) (II) | **Difference** **[After−Before]** **(II)−(I)** | z-statistics (Wilcoxon test) |
|---|---|---|---|---|
| TCL firms | 0.918 | 3.141 | 2.223** (2.60) | |
| Tycoon firms | 0.820 | 1.469 | 0.649*** (8.08) | |
| Other firms | 0.909 | 1.441 | 0.532*** (6.31) | |
| **Difference** **[TCL firms–Tycoon firms]** | 0.098 (0.44) | 1.672* (1.81) | **1.574**** **(1.97)** | 1.72* |
| **Difference** **[TCL firms–Other firms]** | 0.009 (0.04) | 1.700* (1.84) | **1.691**** **(2.05)** | 1.76* |

This table reports the difference-in-differences estimates on market-to-book ratio (MB). MB is defined as the ratio of market value to book value of equity. TCL firms are the firms owned by the tycoons who are in top offices. Tycoon firms are the firms owned by the tycoons who are not in top offices. Other firms are neither TCL firms nor tycoon firms. *Before* refers to the period before TCLs assumed power (2000 and 2001). *After* refers to the period after TCLs assumed power (2002 and 2003). Numbers in parentheses are *t*-statistics from heteroskedasticity-robust standard errors with clustering at the firm level. Wilcoxon test *z*-statistics are for a Wilcoxon rank-sum test on the difference in medians. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

**Table 8B**
**Market-to-book ratio: regression analysis**

| | (1) | (2) |
|---|---|---|
| TCL*AFTER | 1.531** (2.09) | 1.479** (2.01) |
| TCL | −0.002 (−0.01) | −0.054 (−0.27) |
| AFTER | 0.546*** (3.85) | 0.522*** (4.05) |
| Other firms | 0.234 (1.25) | 0.228 (1.24) |
| Concessionary income | | 1.197 (1.49) |
| Size | | −0.168 (−1.10) |
| Leverage | | 0.694 (1.53) |
| Asset growth | | 0.005 (1.17) |
| Constant | 1.199*** (6.86) | 1.537*** (3.02) |
| Industry dummies | Yes | Yes |
| Number of observations | 462 | 462 |
| Adjusted $R^2$ | 0.113 | 0.133 |

This table reports the coefficient estimates of OLS regressions. The dependent variable is the two-year average market-to-book ratio (MB) before and after TCLs took office. MB is defined as the ratio of market value to book value of equity. *TCL* is a dummy variable that takes on a value of 1 if the firm is owned by the tycoons who are in top offices, and 0 otherwise. *Other firms* is a dummy variable that takes on a value of 1 if the firm is neither a TCL firm nor a tycoon firm, and 0 otherwise. *AFTER* is a dummy variable that takes on a value of 1 for the period after the TCLs took office, and 0 otherwise. Concessionary income is the ratio of total concessionary revenue to total revenue. Size is the logarithm of total assets. Leverage is the ratio of total debt to total assets. Asset growth is the one-year growth rate in total assets. Financial control variables are measured at the firm level as of 2000. Numbers in parentheses are *t*-statistics from heteroskedasticity-robust standard errors with clustering at the firm level. ** and *** denote statistical significance at the 5% and 1% levels, respectively.

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Shinawatra family. The results are shown in Table 9. Omitting these firms from our sample does not change our main results.

In Panel A of Table 9, the dependent variables are the mean 12-month BHARs prior to the election, and the mean 12-month, 24-month, and 36-month BHARs after the election. Consistent with the earlier findings, the coefficient on the *TCL* dummy is not significant in regressions (1) and (2). In regressions (3) and (4), TCL firms significantly outperform other firms at the 5% and 1% levels, respectively. In Panel B of Table 9, the dependent variable is the MB ratio. The estimated coefficient on the main explanatory variable, the interaction variable *TCL\*AFTER*, remains statistically significant at the 10% level. Interestingly, the coefficient on the interaction term is only about two-thirds of the full sample coefficient shown in Table 8B. The results suggest that non-Shinawatra families also benefit from political power, but not to the same extent as the prime minister's family.

2. We test whether our results are affected by ownership definitions. One may argue that the controlling family may have stronger incentives to attract economic rents to the firms if the family owns more cash-flow stakes or when no other large shareholder exists. In unreported results, this issue is tested by replicating the analysis in Section 4.3.2 and using two sets of TCL firms. First, two firms where the TCL families own less than 20% cash-flow rights are excluded. The results show that, on average, MB ratios for TCL firms increased 1.78 points relative to those of tycoon firms after the TCLs took office. Second, four TCL firms where there is a block holder owning at least 10% ownership are dropped. The DD estimates show that TCL firms have a 1.90-point higher market valuation than tycoon firms. The estimates are not only strongly significant at the 5% level but are also higher than the results presented in Tables 8A and 8B. The BHAR results are also similar.

3. We test whether our results remain unchanged when using alternative performance measures, such as return on assets (ROA) and the number of employees. With ROA (measured by the ratio of EBIT to total assets), in the two years prior to taking office, TCL firms have significantly lower profitability than non-TCL firms. Statistically, the ROA of TCL firms is 3.2%, while the ROA of tycoon firms and other firms is 8.3% and 7.5%, respectively. However, two years subsequent to TCLs' rising to top office, their firms outperform tycoon firms by 5.1% and other firms by 3.9%. The DD estimates are strongly significant at the 5% level.

The results based on the number of employees are also similar. The DD estimates show that the logarithm of the number of employees is higher for TCL firms by 0.33 when compared with that of tycoon firms and by 0.39 when compared with that of other firms. The estimates are not significant at the 5% level, however. The results are not surprising because TCL firms are technology intensive.

4. We test whether TCL firms were able to expand their businesses operating under concessions. There are 17 firms operating under concessions, 9 of which are TCL firms. Concessionary income generated by TCL firms is

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**Table 9**
**Robustness checks**

Panel A: Buy-and-hold abnormal returns

| | Pre-election period | Post-election period | | | | |
|---|---|---|---|---|---|---|
| | 12-month BHARs (1) | 12-month BHARs (2) | 24-month BHARs (3) | 36-month BHARs (4) | Panel B: Market-to-book ratio | MB |
| TCL | −0.219 | 0.333 | 0.665** | 1.618*** | TCL*AFTER | 1.105* |
| | (−1.61) | (1.04) | (2.26) | (2.82) | | (1.66) |
| Other firms | 0.067 | −0.065 | −0.056 | −0.440 | TCL | 0.197 |
| | (0.76) | (−0.77) | (−0.38) | (−1.52) | | (0.68) |
| Concessionary income | −0.135 | −0.056 | −0.479 | −0.698 | AFTER | 0.512*** |
| | (−0.70) | (−0.24) | (−1.12) | (−0.84) | | (3.97) |
| Size | −0.021 | −0.103 | −0.086 | 0.081 | Other firms | 0.243 |
| | (−0.36) | (−1.42) | (−0.64) | (0.31) | | (1.30) |
| Leverage | 0.230 | 0.034 | −0.107 | 0.033 | Concessionary income | 0.975 |
| | (1.10) | (0.21) | (−0.48) | (0.08) | | (1.37) |
| Fixed assets/ total assets | −0.435*** | 0.178 | 0.338 | 0.402 | Size | −0.114 |
| | (−2.92) | (0.97) | (1.09) | (0.66) | | (−0.84) |
| Asset growth | 0.0001*** | −0.0001 | −0.0002 | −0.0004 | Leverage | 0.674 |
| | (5.91) | (−1.54) | (−1.04) | (−1.09) | | (1.46) |
| Profitability | 0.777** | 0.029 | 0.268 | 1.035 | Asset growth | 0.003 |
| | (2.36) | (0.05) | (0.56) | (1.11) | | (0.74) |
| Constant | −0.180 | 1.031** | 1.176 | 1.649 | Constant | 1.381*** |
| | (−0.64) | (2.03) | (1.38) | (0.99) | | (3.13) |
| Industry dummies | Yes | Yes | Yes | Yes | Industry dummies | Yes |
| Number of observations | 220 | 220 | 220 | 220 | Number of observations | 454 |
| Adjusted $R^2$ | 0.177 | 0.225 | 0.166 | 0.195 | Adjusted $R^2$ | 0.113 |

This table reports coefficient estimates of *OLS* regressions excluding firms owned by the Shinawatra family. Panel A reports regression results on buy-and-hold abnormal returns (BHARs). The variables in Panel A are as defined in Table 7. Panel B reports regression results on market-to-book ratio (MB). The variables in Panel B are as defined in Table 8B. Financial control variables are measured at the firm level as of 2000. Numbers in parentheses are *t*-statistics from heteroskedasticity-robust standard errors with clustering at the firm level. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Bt 10.39 billion prior to TCLs' taking office and Bt 16.17 billion afterward. Non-TCL firms had concessionary income of Bt 6.6 billion before TCLs took office and Bt 7.58 billion afterward. The DD estimates using the logarithm of concessionary income as the dependent variable show that TCL firms obtained more income from their concessions compared to non-TCL firms after TCLs took office. The DD estimate is significant at the 10% level. The results are similar when using an alternative measure, such as the ratio of concessionary revenue to total revenue.

TCL firms are then classified into two groups: with concessions and without concessions. A model similar to that of Section 4.3 is used to test whether TCL firms with concessionary income are more likely to perform better in post-election periods. The results show that performance (measured by BHAR, MB, and ROA) is similar regardless of whether a firm has concessions or not. This evidence suggests that *all* connected firms benefit from political power.

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## 5. Mechanisms Used to Channel Political Favors

This section investigates the mechanisms used to channel political favors. The first analysis investigates the effect of political power on financing. The second analysis studies the role of policy regulations as a mechanism in granting state favors to connected firms. There is very little empirical work on this second issue and this paper uses the event study approach to provide novel empirical results.

### 5.1 Preferential access to debt financing

An extensive literature suggests that firms often maintain close relationships with politicians to obtain preferential access to bank credit.[9] Financing can be channeled to politically connected firms in various forms, for example, through bank debt, long-term debt, debt with preferential terms, and government bailouts. We test whether political power enables TCL firms to borrow more.

The methodology similar to Section 4.3.2 is used to analyze the effect of political power on financing. The dependent variables are the following four debt variables: (1) the ratio of total debt to total assets, (2) the ratio of total debt to total assets plus accounts payable to total assets, (3) the ratio of long-term debt to total assets, and (4) the ratio of long-term debt to total debt. Variables (1) and (2) represent the overall debt structure. Variables (3) and (4) measure the debt maturity structure. Note that because nonbank loans are rarely used by Thai firms, the debt represents bank loans. The average values of a debt variable for two years before and after TCLs take office are the dependent variables in the regressions.

Following the debt literature, in the regressions a number of variables are included to control for the effect of firm characteristics on corporate financial policy, namely size, asset tangibility, profitability, and industry. For robustness checks, two regression analyses are performed. The first analysis uses the full sample. In the second analysis, the four firms owned by the prime minister's family are excluded.

Table 10 presents the regression results. The estimated coefficients on the control variables are strongly significant and have expected signs, as suggested by the capital structure literature. The results indicate that the firm's fundamental factors explain much of the cross-sectional differences and year-to-year changes in corporate financing policy.

Surprisingly, inconsistent with the political connections literature, the results show that there is no positive effect of political power on corporate debt financing. The estimated coefficient on the variable of interest, the interaction variable *TCL*AFTER*, is not statistically significant at the conventional levels

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[9] See, for example, Johnson and Mitton (2003), Khwaja and Mian (2005), Charumilind, Kali, and Wiwattanakantang (2006), and Faccio, Masulis, and McConnell (2006).

in all models. The evidence indicates that political power did not lead to an increase in any kind of corporate debt financing.

It is possible that TCL firms did not have a high debt ratio after the election because of a significant increase in total assets. Following Berger, Ofek, and Yermack (1997), we calculate changes in debt ratio, measured as the ratio of changes in total debt to total assets. Total assets are measured at the start of the year to control for any growth in total assets. The results show a sharp decline in debt financing every single year: the average change in the debt ratio is −20.40% in 2001, −24.25% in 2002, and −6.20% in 2003. Total assets, however, grew −1.11% in 2001, 4.22% in 2002, and 7.57% in 2003 and are therefore not the significant factor in reducing the debt ratio.

## 5.2 Implementation of favorable public policies

This section examines whether the TCL government used economic policy tools to preserve or improve their business opportunities. The hypothesis is that tycoons in top offices can use their positions to make personally favorable policy decisions. An event study approach is used to investigate the nature of state favors bestowed on connected firms. We focus on public announcements and news releases on government decisions that appear to be to the advantage of TCL firms. As shown in Section 3, many TCL firms operate in regulated industries and hold government concessions. The events, therefore, are changes in regulations, laws, and rules of the game.

The major data sources are local business newspapers, *The Nation* and *Bangkok Post*. Additional information on Thai law is obtained from the official website of the Office of the Council of State (http://www.krisdika.go.th).

### 5.2.1 Event study analysis of changes in regulations and public policies.

In this section, the following four events are investigated:

**Event 1: Implementation of foreign entry barriers**

On November 9, 2001, the Telecommunications Business Act was passed (Office of the Council of State). The law limits foreign ownership in the telecommunications industry to a maximum of 25%. The foreign ownership limitation was inserted as a clause by the senate while it was passing the bill in parliament. The enactment of this law, therefore, was not expected. This law effectively bars entry to the industry by foreign companies that have superior technology. Only a few TCL firms that did not have foreign partners were able to meet this ownership restriction.

**Event 2: Modification of concession contracts**

On January 21, 2003, the government announced a proposal to modify the royalty payment scheme of the telecommunications concessions. The bill was finally passed on January 29, 2003. The former revenue-sharing scheme payment to the government—at about 5% to 30% of the concessions' revenue—was replaced by a special excise duty. Under the new system, concession holders

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**Table 10**
**Debt financing**

| | Full sample | | | | Excluding firms owned by the Shinawatra family | | | |
|---|---|---|---|---|---|---|---|---|
| | Total debt/ total assets (1) | (Total debt + accounts payable)/total assets (2) | Long-term debt/total assets (3) | Long-term debt/total debt (4) | Total debt/ total assets (5) | (Total debt + accounts payable)/total assets (6) | Long-term debt/total assets (7) | Long-term debt/total debt (8) |
| TCL*AFTER | −0.039 | −0.044 | −0.022 | 0.036 | −0.053 | −0.052 | −0.025 | 0.047 |
| | (−0.84) | (−0.88) | (−0.61) | (0.58) | (−1.13) | (−1.00) | (−0.77) | (0.86) |
| TCL | −0.054 | −0.048 | 0.031 | 0.104 | −0.058 | −0.042 | 0.031 | 0.105 |
| | (−0.74) | (−0.63) | (0.51) | (1.20) | (−0.71) | (−0.47) | (0.48) | (1.22) |
| AFTER | −0.031*** | −0.037*** | −0.027*** | −0.019 | −0.031*** | −0.038*** | −0.027*** | −0.019 |
| | (−2.77) | (−3.54) | (−3.60) | (−1.06) | (−2.78) | (−3.58) | (−3.61) | (−1.06) |
| Other firms | −0.010 | −0.019 | 0.018 | 0.056 | −0.011 | −0.020 | 0.017 | 0.056 |
| | (−0.28) | (−0.50) | (0.86) | (1.62) | (−0.30) | (−0.52) | (0.85) | (1.61) |
| Concessionary income | 0.064 | 0.022 | 0.139* | 0.306*** | 0.081 | 0.049 | 0.170** | 0.366*** |
| | (0.83) | (0.30) | (1.78) | (3.05) | (1.01) | (0.65) | (2.13) | (3.89) |
| Size | 0.112*** | 0.093*** | 0.101*** | 0.156*** | 0.110*** | 0.092*** | 0.102*** | 0.158*** |
| | (3.88) | (3.06) | (5.38) | (4.75) | (3.70) | (2.93) | (5.31) | (4.74) |
| Fixed assets/total assets | 0.193*** | 0.133 | 0.160*** | 0.314*** | 0.205*** | 0.149* | 0.172*** | 0.330*** |
| | (2.64) | (1.61) | (3.26) | (3.81) | (2.76) | (1.77) | (3.48) | (3.97) |
| Profitability | −0.766*** | −0.837*** | −0.340*** | −0.419** | −0.786*** | −0.863*** | −0.347*** | −0.419** |
| | (−5.21) | (−5.36) | (−3.56) | (−2.51) | (−5.23) | (−5.41) | (−3.58) | (−2.47) |
| Asset growth | −0.0002 | 0.001 | −0.0004 | 0.0001 | −0.0001 | 0.001 | −0.0003 | 0.0002 |
| | (−0.22) | (1.18) | (−0.73) | (0.12) | (−0.14) | (1.31) | (−0.61) | (0.21) |
| Constant | −0.135 | 0.027 | −0.233*** | −0.121 | −0.133 | 0.026 | −0.242*** | −0.136 |
| | (−1.19) | (0.18) | (−2.99) | (−0.84) | (−1.14) | (0.17) | (−3.05) | (−0.93) |
| Industry dummies | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Number of observations | 462 | 462 | 462 | 462 | 454 | 454 | 454 | 454 |
| Adjusted $R^2$ | 0.156 | 0.133 | 0.306 | 0.345 | 0.157 | 0.137 | 0.309 | 0.340 |

This table reports coefficient estimates of OLS regressions on debt financing. The dependent variables are the two-year average leverage and debt maturity before and after TCLs took office. Columns (1)–(4) report regression results based on the full sample. Columns (5)–(8) report regression results excluding firms owned by the Shinawatra family. *TCL* is a dummy variable that takes on a value of 1 if the firm is owned by the tycoons who are in top office, and 0 otherwise. *Other firms* is a dummy variable that takes on a value of 1 if the firm is neither a TCL firm nor a tycoon firm, and 0 otherwise. *AFTER* is a dummy variable that takes on a value of 1 for the period after the TCLs took office, and 0 otherwise. Concessionary income is the ratio of concessionary revenue to total revenue. Size is the logarithm of total assets. Fixed assets/total assets is the ratio of net fixed assets to total assets. Profitability is the ratio of earnings before interest and taxes to total assets. Asset growth is the one-year growth rate in total assets. Financial control variables are measured as of year 2000. Numbers in parentheses are *t*-statistics from heteroskedasticity-robust standard errors with clustering at the firm level.* , ** , and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

pay an excise duty at a flat rate of 10% of the revenue to the Ministry of Finance and the balance of the original revenue sharing to the licensor agencies.

The excise tax scheme can be considered as a barrier to entry to the advantage of the incumbent firms. With the imposition of this tax scheme, new business competitors incurred a 10% excise tax while incumbents incurred no marginal costs.

**Event 3: Concession fee cuts and granting of new concessions**

On April 10, 2002, an executive of a TCL company, Independent Television (iTV), announced at a media meeting that the government would soon reduce license concession fees paid by the company. The company was granted permission by an arbitration panel on January 29, 2004. The arbitrator's decision lowered the concession fees from Bt 1 billion (USD 38.33 million) to Bt 230 million (USD 6 million) a year over 30 years. In addition, the company was granted a 50% increase in its entertainment programming and a permission to air these shows during prime-time spots. This new concession might benefit the company about Bt 18 billion (USD 466 million) (*Financial Times*, February 3, 2005). After the company received these new contracts, its financial position improved significantly. The company, which was set up in 1995, posted its first-ever profit, of Bt 24 million, in the first quarter of 2004.

**Event 4: Tax exemption**

On November 20, 2003, the Board of Investment (BOI) announced that Shin Satellite, a TCL firm owned by Prime Minister Thaksin Shinawatra's family, was awarded an eight-year corporate tax holiday on profits from foreign sales of satellites. This award is likely to benefit the company about Bt 16.5 billion (USD 427 million) (*Financial Times*, February 3, 2005).

Seven of the eighteen board members of the BOI who approved the award had close relationships with Prime Minister Shinawatra. All seven were executives of the Thai Rak Thai Party, the party led by the prime minister. Four of the seven members were also in Shinawatra's cabinet (see http://www.boi.go.th).

**5.2.2 Results of the event studies**  The market-adjusted cumulative abnormal returns (CARs) around the event dates are estimated using a standard event study approach following Brown and Warner (1985). If the principal beneficiaries appear to be the TCLs themselves, the share prices of TCL firms should increase in reaction to the news announcement. The market model parameters are estimated by using 200-trading-day windows $(-220, -21)$ preceding the event date.[10] We calculate the CARs for the three-day period around the event dates [CAR $(-1, +1)$]. The event date is defined as the first trading day after the news became public.

As our primary hypotheses are the differences in CARs across the sub-samples, we test differences across the sub-sample means using $t$-statistics in

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[10] Data limitations on a price history prevent calculation of historical betas for a few firms in our sample. These firms were newly listed and hence have stock price data for fewer than 200 trading days.

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which the standard errors are corrected by clustering the observations by firm and industry. These clustered standard errors account for both a general form of heteroskedasticity as well as for possible correlation within a cluster. As the two methods yield qualitatively identical results, the results on the Huber-White robust clustered (by firm) standard errors are presented.

Table 11A shows the results. First, we look at the effect of the announcement on TCL firms that appear to be the principal beneficiaries of the new policies. For events 1 and 2, the TCL firms that were operating in the telecommunications industry are considered as the principal beneficiaries. The results are striking. These firms experienced positive and high abnormal returns with the average CARs of 3.04% for event 1 and 4.65% for event 2. For events 3 and 4, the principal beneficiary firms are iTV and Shin Satellite, respectively. While the CARs for iTV are about 7.19%, the CARs for Shin Satellite are astonishingly high at 12.82%.

Second, the results that are based on all TCL firms are similar. Not only did the principal beneficiary firms experience high CARs, but other TCL firms also experienced positive abnormal returns. The average CARs of all TCL firms are 2.29%, 3.02%, 3.08%, and 1.79% associated with events 1 to 4, respectively. Similar results are also observed using the median CARs.

In contrast to TCL firms, non-TCL firms experienced negative abnormal returns. The mean CARs are −0.19%, −1.04%, −0.87%, and −2.30% associated with events 1 to 4, respectively. The univariate tests indicate that the average CARs for TCL firms are 2.48%, 4.06%, 3.95%, and 4.09% higher than the average CARs for non-TCL firms associated with the same events. The differences in the mean values are strongly significant at the 1% and 5% levels. Similar results are also observed using the median CARs.

For robustness tests, we run OLS regressions with the standard errors corrected for heteroskedasticity. The control variables are the same set as in Section 4.3.1. The regression results in Table 11B are qualitatively and quantitatively similar to those for the univariate tests. The estimated coefficients on the *TCL* dummy are positive and strongly significant at the 5% level for all events.

Overall results suggest that the market appears to consider that leaders use the state to implement discretionary policies to favor their connected firms. That the announcement effects are so large is probably due to the market's anticipation of further actions that would benefit the TCL firms.

## 6. The Effect on Market Share

This section investigates the economic outcome of political power. We test whether the implementation of such policies is aimed at maximizing the profits of TCL firms or at addressing market failures (see Djankov et al. 2002). If the policies create rents for the incumbent TCL firms by safeguarding their businesses and keeping out their opponents, then market distortions should be

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**Table 11A**
**Market reactions to change in public policy**

| Event date | Event description | | Principal beneficiary TCL firms | TCL firms | Non-TCL firms | Full sample Difference [TCL firms – Non-TCL firms] | t-statistics (clustered by firm) | z-statistics (Wilcoxon test) |
|---|---|---|---|---|---|---|---|---|
| November 9, 2001 (Event 1) | The Telecommunications Business Act was passed to limit foreign ownership at 25%. | Mean [Median] | 3.037 [3.070] | 2.285 [2.660] | -0.193 [-0.730] | 2.478 [3.390] | 2.00** | 3.02*** |
| January 21, 2003 (Event 2) | A bill to introduce 10% tax on new entrants to the telecoms industry was passed. | Mean [Median] | 4.647 [3.540] | 3.022 [0.490] | -1.040 [-0.705] | 4.062 [1.195] | 1.99** | 2.19** |
| April 10, 2002 (Event 3) | A TCL firm was granted a new concession contract and the concession fees were reduced. | Mean [Median] | 7.190 [7.190] | 3.084 [0.285] | -0.866 [-1.110] | 3.950 [1.395] | 2.69*** | 2.00** |
| November 20, 2003 (Event 4) | 8-year tax holiday was granted to a TCL firm. | Mean [Median] | 12.820 [12.820] | 1.790 [0.160] | -2.299 [-1.610] | 4.089 [1.770] | 2.15** | 1.76* |

This table reports the three-day cumulative market-adjusted abnormal returns (CARs) around the event date. The event date is the first trading day after the announcement of the change in public policies. Principal beneficiary TCL firms are the TCL firms that directly benefit from the policy change. TCL firms are the firms that are owned by the tycoons who are in top offices. Non-TCL firms are the firms that are not TCL firms. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

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**Table 11B**
**Event studies: regression analysis**

|  | Event 1 (1) | Event 2 (2) | Event 3 (3) | Event 4 (4) |
|---|---|---|---|---|
| TCL | 0.025** | 0.037** | 0.040*** | 0.043** |
|  | (2.59) | (2.00) | (2.69) | (2.58) |
| Concessionary income | −0.003 | 0.064** | 0.007 | −0.043 |
|  | (−0.16) | (2.40) | (0.31) | (−1.64) |
| Size | −0.006 | −0.009 | 0.001 | 0.005 |
|  | (−0.84) | (−0.93) | (0.07) | (0.64) |
| Leverage | 0.015 | 0.035 | 0.005 | 0.026 |
|  | (0.70) | (1.53) | (0.35) | (1.64) |
| Fixed assets/total assets | −0.020 | −0.036 | −0.002 | −0.021 |
|  | (−1.07) | (−1.52) | (−0.15) | (−1.10) |
| Asset growth | 0.0001 | −0.0002 | 0.0003 | −0.00004 |
|  | (0.23) | (−0.57) | (1.39) | (−0.20) |
| Profitability | −0.086 | 0.067 | 0.059 | 0.138*** |
|  | (−1.63) | (1.23) | (1.40) | (2.73) |
| Constant | 0.030 | 0.022 | −0.017 | −0.048* |
|  | (1.01) | (0.69) | (−0.77) | (−1.88) |
| Industry dummies | Yes | Yes | Yes | Yes |
| Number of observations | 162 | 227 | 224 | 241 |
| Adjusted $R^2$ | 0.072 | 0.161 | 0.066 | 0.078 |

This table reports the coefficient estimates of OLS regressions. The dependent variable is the three-day cumulative market-adjusted abnormal returns (CARs) around the event date. The event date is the first trading day after the announcement of the change in public policies. *TCL* is a dummy variable that takes on a value of 1 if the firm is owned by the tycoons who are in top offices, and 0 otherwise. Concessionary income is the ratio of concessionary revenue to total revenue. Size is the logarithm of total assets. Leverage is the ratio of total debt to total assets. Fixed assets/total assets is the ratio of net fixed assets to total assets. Asset growth is the one-year growth rate in total assets. Profitability is the ratio of EBIT to total assets. The control variables are measured at the firm level as of the year-end prior to the event date. Numbers in parentheses are *t*-statistics from heteroskedasticity-robust standard errors. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

observed. After the owners take office, TCL firms should be able to expand and seize more market share at the expense of their peers.

Market share is defined as a firm's sales divided by total industry sales following Blundell, Griffith, and Van Reenen (1999). A firm's industry is defined as its principal operating industry at the three-digit SIC code level.

Two methodologies are used to form portfolio benchmarks. In the first methodology, we employ an analysis similar to that in Section 4.3.2. The benchmarks are tycoon firms and other firms.

In the second methodology, the benchmark groups are the country's most politically connected groups. The first group is made up of *firms with stable political influence*. Following the Thai political science literature, the royal family and the military are considered as having a long and enduring political influence in Thailand. A firm connected with the royal family is defined as any firm owned by their holding company, the Crown Property Bureau. A firm is defined as having close connections to the military when high military officials are on its board. There are 13 companies in this group.

The second group is made up of *firms losing political influence* as a result of the TCL government coming to power. The Democrat party led the previous coalition government (1997 to 2001) and was also the main opposition party

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during the Shinawatra administration. Therefore, family firms with a close connection to the Democrat party fall in this group. A close connection is defined as having at least one family member as an elected MP under the Democrat party during this period. There are four families and six firms in this group.

Other firms in the sample that are not controlled by these two benchmark groups or the TCLs are defined as *non-connected firms*.

Table 12 shows the results of the DD analysis. Panel A presents the results based on the first methodology. Before the TCLs took office, the average market share during 2000–2001 for TCL firms was not statistically distinguishable from that of non-TCL firms. But, after the TCLs took office, TCL firms experienced a sharp increase in market share, from 26.1% to 38.3%, or 12.2 percentage points. In other words, on average, TCL firms gained 46.74% of market share within a few years. While there was no change in the market share of tycoon firms, other firms lost market share, from 28.5% to 23.9%, or down 4.6 percentage points.

The results indicate that the market power of TCL firms increased at the expense of their counterparts. The DD estimate for TCL firms versus tycoon firms shows that the average market share of TCL firms increased about 12.8 percentage points and is statistically significant at the 10% level. A difference of 12.8 percentage points is indeed remarkable as it indicates an increase of 49.04% in the market share of TCL firms. When compared with other firms, TCL firms gained about 16.8 percentage points, statistically significant at the 5% level.

The results in Panel B of Table 12 are consistent with the findings of Panel A. The DD estimates show that TCL firms gained market share of 14.1 percentage points compared to firms with stable political influence, and 16 percentage points compared to firms losing political influence.

Table 13 shows the regression results controlling for the effects of concessionary income, profitability, and leverage. Inclusion of the control variables leaves our key coefficients intact.

Our results suggest that public policies implemented by the new government ended up changing the market composition by locking in TCL firms and keeping out their peers. The incremental gain in market share for TCL firms of about 50% over other firms is substantial given that the country's macroeconomic growth was only about 5.3% and 7% in 2002 and 2003, respectively. Greater market concentration in the hands of TCLs can be detrimental to the national economy if TCL firms are not the most productive firms.

### 6.1 Reverse causality

It is unlikely that our results are driven simply by reverse causality. In other words, it is *not* the case that improving economic opportunities for the TCL firms cause their owners to pursue political office so as to protect their economic position. As described earlier, we have estimated the performance variables

**Table 12**
**Market share**

| | Before (Avg. 2000–2001) (I) | After (Avg. 2002–2003) (II) | **Difference** [After−Before] ((II) − (I)) | z-statistics (Wilcoxon test) |
|---|---|---|---|---|
| *Panel A: TCL firms vs. Non-TCL firms* | | | | |
| TCL firms | 0.261 | 0.383 | 0.122* (1.82) | |
| Tycoon firms | 0.304 | 0.298 | −0.006 (−0.39) | |
| Other firms | 0.285 | 0.239 | −0.046** (−2.65) | |
| **Difference** | −0.043 | 0.085 | **0.128*** | 0.89 |
| **[TCL firms − Tycoon firms]** | (−0.44) | (0.88) | **(1.96)** | |
| **Difference** | −0.024 | 0.144 | **0.168**** | 1.13 |
| **[TCL firms − Other firms]** | (−0.24) | (1.49) | **(2.51)** | |
| *Panel B: TCL firms vs. Alternative benchmarks* | | | | |
| Firms with stable political influence | 0.240 | 0.221 | −0.019 (−0.78) | |
| Firms losing political influence | 0.261 | 0.223 | −0.038 (−0.91) | |
| Non-connected firms | 0.289 | 0.241 | −0.048* (−2.59) | |
| **Difference** | 0.021 | 0.162 | **0.141*** | 0.88 |
| **[TCL firms − Firms with stable political influence]** | (0.15) | (1.16) | **(1.97)** | |
| **Difference** | 0.000 | 0.160 | **0.160*** | 1.17 |
| **[TCL firms − Firms losing political influence** | (0.00) | (0.99) | **(2.06)** | |
| **Difference** | −0.028 | 0.142 | **0.170**** | 0.80 |
| **[TCL firms − Non-connected firms]** | (−0.29) | (1.47) | **(2.54)** | |

This table reports the difference-in-differences estimates on market share. Panel A reports the results using non-TCL firms as benchmarks. Panel B reports the results using alternative benchmarks. Market share is defined as the firm's sales divided by total industry sales. A firm's industry is defined as its principal operating industry at the three-digit SIC code level. TCL firms are the firms owned by the tycoons who are in top offices. Tycoon firms are the firms owned by the tycoons who are not in top offices. Other firms are neither TCL firms nor tycoon firms. Firms with stable political influence are the firms connected with the royal family and the military. Firms losing political influence are the firms connected with the previous government. Non-connected firms are non-politically connected firms. *Before* refers to the period before TCLs assumed power (2000 and 2001). *After* refers to the period after TCLs assumed power (2002 and 2003). Numbers in parentheses are *t*-statistics from heteroskedasticity-robust standard errors with clustering at the firm level. Wilcoxon test z-statistics are for a Wilcoxon rank-sum test on the difference in medians. * and ** denote statistical significance at the 10% and 5% levels, respectively.

starting one or two years before TCLs took office. Our analyses show that before taking office, TCL firms were in a worse position compared with non-connected firms. In terms of BHAR, MB, and market share, TCL firms and non-connected firms were similar, while in terms of ROA, TCL firms performed much worse than non-connected firms by about 5%. There is a striking reversal, however, after TCLs took office: TCL firms became the market leaders after gaining about 50% of market share. As a result, TCL firms attained extraordinary performance as measured by BHAR, MB, and ROA. Our evidence, therefore, rules out reverse causality. In sum, our findings are consistent with the hypothesis that big

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**Table 13**
**Market share: regression analysis**

| | (1) | (2) | Alternative benchmarks | | |
| --- | --- | --- | --- | --- | --- |
| | | | (3) | (4) | (5) |
| TCL*AFTER | 0.149** | 0.115** | 0.115** | 0.115** | 0.116** |
| | (2.28) | (2.12) | (2.12) | (2.12) | (2.14) |
| TCL | −0.054 | −0.062 | −0.059 | −0.062 | −0.046 |
| | (−0.56) | (−0.60) | (−0.58) | (−0.60) | (−0.45) |
| AFTER | −0.026** | −0.023** | −0.023** | −0.023** | −0.024** |
| | (−2.34) | (−2.01) | (−2.01) | (−2.01) | (−2.05) |
| Other firms | −0.040 | −0.040 | | | |
| | (−1.04) | (−1.01) | | | |
| Firms with stable political influence | | | | −0.073 | −0.056 |
| | | | | (−0.75) | (−0.59) |
| Firms losing political influence | | | −0.064 | | −0.049 |
| | | | (−0.44) | | (−0.35) |
| Non - connected firms | | | −0.034 | −0.036 | |
| | | | (−0.87) | (−0.91) | |
| Concessionary income | | 0.024 | 0.024 | 0.023 | 0.026 |
| | | (0.26) | (0.27) | (0.25) | (0.29) |
| Profitability | | 0.391** | 0.396** | 0.392** | 0.396** |
| | | (2.03) | (2.06) | (2.04) | (2.05) |
| Leverage | | 0.052 | 0.052 | 0.054 | 0.057 |
| | | (0.68) | (0.68) | (0.70) | (0.73) |
| Constant | 0.315*** | 0.264*** | 0.261*** | 0.264*** | 0.246*** |
| | (10.82) | (5.86) | (5.95) | (5.84) | (6.30) |
| Number of observations | 370 | 370 | 370 | 370 | 370 |
| Adjusted $R^2$ | 0.013 | 0.023 | 0.023 | 0.024 | 0.021 |

This table reports the coefficient estimates of OLS regressions. The dependent variable is the average values of the market share for the two years before and after TCLs assumed power. Market share is defined as the firm's sales divided by total industry sales. A firm's industry is defined as its principal operating industry at the three-digit SIC code level. *TCL* is a dummy variable that takes on a value of 1 if the firm is owned by the tycoons who are in top offices, and 0 otherwise. *Other firms* is a dummy variable that takes on a value of 1 if the firm is neither a TCL firm nor a tycoon firm, and 0 otherwise. *Firms with stable political influence* is a dummy variable that takes on a value of 1 if the firm is connected with the royal family and the military, and 0 otherwise. *Firms losing political influence* is a dummy variable that takes on a value of 1 if the firm is connected with the previous government, and 0 otherwise. *Non-connected firms* is a dummy variable that takes on a value of 1 if the firm is a non-politically connected firm. *AFTER* is a dummy variable that takes on a value of 1 for the period after TCLs assumed power, and 0 otherwise. Concessionary income is the ratio of concessionary revenue to total revenue. Profitability is the ratio of EBIT to total assets. Leverage is the ratio of total debt to total assets. The control variables are measured at the firm level as of 2000. Numbers in parentheses are *t*-statistics from heteroskedasticity-robust standard errors with clustering at the firm level. * , ** , and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

business owners pursue political office to improve their economic opportunities at the expense of non-connected firms.

## 7. Conclusion

This paper is the first study to investigate the economic incentives in Thailand that entice big business owners to seek election to public office. The probit results show a positive relationship between business tycoons holding concession contracts and their decision to run for public office. This evidence suggests that holding public office might be a mechanism for rent extraction. A further investigation shows that this was probably the case. After the tycoons took office, their firms achieved greater market valuation than other firms. This evidence

suggests that weak institutions in Thailand are unable to stop the leaders to channel various forms of government support to firms owned by their families. These policies appear to have side effects that further distort market structure. Incumbent-connected firms have expanded their market power at the expense of their peers. The results show that the political power of the owners accounted for the extraordinary incremental gain in market valuation and market share. The hypothesis that tycoons do not have any economic incentive for holding public office is ultimately ruled out.

Overall, our results show that public office can be used by business tycoons to expand their corporate control. The findings are consistent with the literature that public policy and its outcomes are endogenous and determined by the corporate elites who hold political power (Rajan and Zingales 2003; Stulz 2005).

There is scope for further work to investigate the outcomes of tycoons holding top offices, in particular, whether they would leave the country better or worse off. On the one hand, tycoons might be able to improve economic efficiency because they can employ their superior entrepreneurial skills to run the country. Such managerial skills are particularly valuable in developing countries. On the other hand, power can become too concentrated, as the tycoons have control over both economic and political decisions. These few families can dominate the market, which distorts capital and other resource allocation (Morck, Wolfenzon, and Yeung 2005).

**Appendix 1**
**The composition of regional benchmark portfolios**

|  | Two-digit SIC code matching firms | | Three-digit SIC code matching firms | |
|---|---|---|---|---|
|  | Number of firms | % | Number of firms | % |
| Hong Kong | 206 | 15.9 | 82 | 24.0 |
| Indonesia | 79 | 6.1 | 22 | 6.5 |
| Korea | 286 | 22.1 | 58 | 17.0 |
| Malaysia | 184 | 14.2 | 64 | 18.8 |
| Philippines | 60 | 4.6 | 22 | 6.5 |
| Singapore | 116 | 9.0 | 41 | 12.0 |
| Taiwan | 365 | 28.2 | 52 | 15.2 |
| Total | 1296 | 100.0 | 341 | 100.0 |

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