รายงานผลการวิจัย

เรื่อง

การได้มาและการสูญเสียความสัมพันธ์ทางการเมืองที่มีต่อผลประกอบการของบริษัท: เหตุการณ์จากการปฏิวัติในประเทศไทยในปี 2549

THE EFFECT OF THE GAIN AND LOSS OF POLITICAL CONNECTIONS ON FIRM PERFORMANCE: EVIDENCE FROM THE COUP IN THAILAND IN 2006

โดย

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คำสำคัญ: ความสัมพันธ์ทางการเมือง ผลประกอบการของบริษัท การครอบคลุมตลาด การจัดหาเงินทุนโดยการก่อหนี้ และประเทศไทย

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บทคัดย่อ

งานวิจัยนี้ได้ทำการศึกษาบทบาทและผลกระทบของความสัมพันธ์ทางการเมืองภายใต้ลักษณะของการถือหุ้นแบบกระจุกตัว บริษัทของครอบครัว และการบังคับใช้กฎหมายที่ไม่แข็งแรงในประเทศไทย โดยใช้การวิเคราะห์จากกลุ่มตัวอย่างขนาดใหญ่ตั้งแต่ปี 2541 ถึง 2550 ซึ่งแบ่งเป็น 3 ช่วงเวลา ได้แก่ ก่อนการเลือกตั้ง (2541-2543) การแต่งตั้งดร.ทักษิณ ชินวัตรเป็นนายกรัฐมนตรี (2544-2547) และช่วงตกต่ำทางการเมืองถึงเหตุการณ์ปฏิวัติ (2548-2550) ในงานวิจัยนี้ได้ให้คำจำกัดความของบริษัทที่มีความสัมพันธ์ทางการเมืองว่าเป็นบริษัทที่มีสมาชิกในครอบครัวของนายกรัฐมนตรีทักษิณ ชินวัตร สมาชิกในครอบครัวของรัฐมนตรีในรัฐบาลนายกรัฐมนตรีทักษิณ ชินวัตรระหว่างปี 2544-2547 สมาชิกในครอบครัวของสมาชิกพรรคไทยรักไทย หรือสมาชิกในครอบครัวของผู้บริจาคเงินให้พรรคไทยรักไทย เป็นผู้ถือหุ้นรายใหญ่ของบริษัท ผลวิจัยได้แสดงว่าอัตราส่วนกำไรต่อสินทรัพย์ที่ปรับค่าเฉลี่ยอุตสาหกรรมระหว่างบริษัทที่มีความสัมพันธ์ทางการเมืองและไม่มีความสัมพันธ์ทางการเมืองมีความแตกต่างกันระหว่างปี 2547 (ปีรุ่งเรืองของรัฐบาลนายกรัฐมนตรี ทักษิณ ชินวัตร) และปี 2550 (หลังปีเหตุการณ์ปฏิวัติ) และบริษัทที่มีความสัมพันธ์ทางการเมืองมีอัตราผลตอบแทนที่เกินปกติสะสมกันมากกว่าบริษัทที่ไม่มีความสัมพันธ์ทางการเมืองในปีที่เกิดเหตุการณ์ปฏิวัติ 2549 ผลวิจัยดังกล่าวตีความได้ว่าความสัมพันธ์ทางการเมืองมีความสำคัญต่อผลประกอบการของบริษัท และ ถ้าบริษัทต้องสูญเสียความสัมพันธ์ทางการเมืองจะทำให้ผลประกอบการของบริษัทนั้นลดลง

นอกจากนี้ งานวิจัยนี้ได้ทำการศึกษาบทบาทและการพัฒนาความสัมพันธ์ทางการเมืองโดยใช้กรณีศึกษาของบริษัทในครอบครัวนายกรัฐมนตรี ทักษิณ ชินวัตร ที่จดทะเบียนในอุตสาหกรรมโทรคมนาคม ผลงานวิจัยพบว่าบริษัทในครอบครัวชินวัตรได้พัฒนาความสัมพันธ์กับรัฐบาลโดยผ่านความสัมพันธ์ส่วนตัวที่ดร.ทักษิณมีต่อนักการเมืองและผ่านการดำรงตำแหน่งทางการเมืองของท่านเอง ความสัมพันธ์ทางการเมืองดังกล่าวได้ให้ประโยชน์ต่อการขยายตัวของกลุ่มธุรกิจในครอบครัวชินวัตรตั้งแต่เริ่มการก่อตั้งบริษัท ยิ่งไปกว่านั้น ผลวิจัยพบว่า ในช่วงเหตุการณ์ที่บริษัทในครอบครัวชินวัตรได้รับความสัมพันธ์ทางการเมืองและได้รับสัมปทานจากรัฐบาล อัตราผลตอบแทนที่เกินปกติของบริษัทสูงกว่าบริษัทอื่นในอุตสาหกรรมเดียวกัน และในช่วงเหตุการณ์ที่บริษัทในครอบครัวชินวัตรได้สูญเสียความสัมพันธ์ทางการเมือง อัตราส่วนมูลค่าตลาดต่อมูลค่าบัญชีของสินทรัพย์ของบริษัทมีค่าต่ำกว่าบริษัทอื่นในอุตสาหกรรมเดียวกัน อีกทั้งในช่วงวิกฤติเศรษฐกิจไทย พบว่าอัตราส่วนหนี้สินต่อสินทรัพย์ของบริษัทในครอบครัวชินวัตรมีค่ามากกว่าบริษัทอื่นในอุตสาหกรรมเดียวกัน แต่มีค่าต่ำกว่าบริษัทอื่นในช่วงการดำรงตำแหน่งนายกรัฐมนตรีของดร.ทักษิณ ชินวัตร ผลงานวิจัยดังกล่าวอาจตีความได้ว่า บริษัทในครอบครัวชินวัตรสามารถหาช่องทางการจัดหาเงินทุนโดยการก่อหนี้ได้ง่ายกว่าบริษัทอื่นในช่วงเวลาที่ตลาดการเงินของไทยมีปัญหาสภาพคล่อง แต่ในช่วงที่ดร.ทักษิณ ชินวัตรดำรงตำแหน่งนายกรัฐมนตรี บริษัทในครอบครัวชินวัตรอาจจะมีกระแสเงินสดเพียงพอต่อการลงทุนหรืออาจมีโอกาสในการจัดหาเงินทุนในตลาดหลักทรัพย์ได้ง่ายกว่าบริษัทอื่นในอุตสาหกรรมเดียวกัน

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ABSTRACT

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

In addition, the role and development of connections are explored using a unique case study of the former Thai Prime Minister family firms in the telecommunications industry. The findings show that the Shinawatra family firms had developed connections with the government through Thaksin Shinawatra's personal relations with politicians and his ministerial posts. Connections were evidently beneficial for the family business group's expansion since its establishment. When the Shinawatra family firms gain connections with the government and obtain government privileges, their CARs are higher than CARs of other firms in the industry. As a result of the loss of connections, the market to book ratio of firms that belong to the Shinawatra family is lower than that of other firms in the same industry in the decline-coup period.

Furthermore, the leverage ratio of the Shinawatra family firms is higher than that of other firms in the crisis period, but lower in the appointment period. The results imply that firms of the Shinawatra family obtain an easier access to external funds when the Thai financial market is financially-constrained. In the appointment period, they may generate sufficient cash flow for their investment, or obtain an easy access to equity financing as an alternative source of external funds.

CHAPTER 1: INTRODUCTION

> "The majority of the people are suspicious of extensive corruption and malfeasance practices among the bureaucracy. Independent agencies and organisations have been dominated by politics and unable to fulfil the objectives as stipulated in the constitution of the Kingdom of Thailand." Army Chief General Sonthi Boonyaratglin declared on 19 September 2006.[1]

In Thailand, connections among family firms, banks and the government are prevalent. Existing evidence shows that connections with banks help firms obtain an easy access to external funds (Espenlaub, Khurshed, Sitthipongpanich and Wiwattanakantang, 2007) and connections with the government help firms gain competitive advantages through favourable regulations (Bunkanwanich and Wiwattanakantang, 2008). However, it seems that such connections are detrimental. The Thai financial crisis took place in July 1997, highlighting the adverse results of connections in the banking and financial sector. The military coup ousted the Prime Minister Thaksin Shinawatra in September 2006 because of extensive corruption. The former Prime Minister has been criticised for changing the regulation to benefit his family businesses (Roth, Rivers and Rose, 2006). The 2006 coup underlines adverse consequences of connections between family firms and the government in Thailand.

1.1 Motivation

In emerging markets, connections seem to be driven by the key institutional characteristics of concentrated ownership and business groups. Controlling family shareholders intend to maintain ownership concentration and to sustain family business groups for their successors, i.e. their children (e.g. Lins, 2003; Friedman, Johnson and Mitton, 2003; Burkart, Panunzi and Shleifer, 2003; Claessens, Fan and

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[1] Statement of the Leader of Thailand's military coup as reported by the BBC on 19 September 2006.

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

In this research, connections are defined as the relationship between firms and the government in the context of family firms in an emerging market. Firms that are owned by country leaders' families are not uncommon. Examples are family firms of Silvio Berlusconi (the Prime Minister of Italy), Suharto (the President of Indonesia), Ferdinand Marcos (the President of the Philippines), and Thaksin Shinawatra (the Prime Minister of Thailand). I use a sample of non-financial firms listed on the Stock Exchange of Thailand between 1998 and 2007. It could be argued that Thai firms are representative of firms in emerging markets because they operate in a similar institutional framework in terms of a weak legal system, ownership structure, and family business groups, as in most emerging countries. The study of a single country provides an in-depth and detailed analysis and Thailand is an ideal setting to examine the existence of political connections for several reasons. Firstly, Thailand is a country where ownership structure is highly concentrated in firms. Concentrated ownership of families facilitates the expansion of business groups. Secondly, social relations among wealthy family business groups are commonly observed. Thirdly, political connections are widespread, especially between wealthy families and the government during the appointment of Thaksin as Prime Minister. Connections with the government help firms obtain competitive advantages and favourable treatments. Fourthly, the political revolution in 2006 shows the failures of big business owners in Thai politics and the adverse consequences of political connections.

The appointment of Thaksin as Prime Minister and political revolution in 2006 divide the sample period into three political conditions, these being the pre-election (1998-2000), appointment of Thaksin as Prime Minister (2001-2004), and declining and the coup (2005-2007) periods. It has also been arguable that the outstanding performance of firms in the Shinawatra family business group might have been caused by not only connections, but also other competence factors, during the appointment of Thaksin as Prime Minister. Therefore, I will also investigate the effect of political connections on the performance of firms in the Shinawatra family business group, relative to other firms in the telecommunications industry, after Thaksin Shinawatra entered into Thai politics. The sample period of 1995-2007 covers political appointments and revolution, which evidently show the gain and loss of political connections.

Additionally, the political revolution in 2006 raised concerns about corporate governance and adverse consequences of cronyism. Connections between firms and the government allow for several controversial consequences. Firstly, they may lead to extensive corruption, which was a reason for the coup that overthrew the former Thai Prime Minister. Secondly, politically-connected firms may obtain favourable treatments to increase competitive advantages and market coverage, thus possibly leading to unfair competition. Thirdly, political connections may lead to easy access to external funds and the asymmetric treatment of firms by banks. Accordingly, I will investigate connections between firms and the government to clarify these issues.

1.2 Objectives and research questions

The objectives of this research are to investigate 1) the differences in characteristics between firms with and without political connections in different political conditions, 2) the impact of political appointments and revolution on firm performance, market coverage and debt financing, and 3) the role and value of political connections, using a unique case of the former Thai Prime Minister's family firms in the telecommunications industry.

The main research questions and the methodology executed in the research are summarised as follows.

Question 1: Do political connections affect firm performance, market coverage and debt financing in different political conditions?

I will define the presence of political connections based on institutional characteristics in Thailand. Connections through ultimate family ownership are of main interest. I will classify firms by the presence of political connections in the appointment period of Thaksin as Prime Minister from 2001 to 2004. As a preliminary analysis for the impact of political connections on firm performance, I will investigate the differences between firms with and without political connections in different political conditions. I will use descriptive statistics and tests for the equality of mean and median values. To investigate the impact of political connections on firm performance, I will use Pooled Ordinary Least Square (OLS) regressions and Difference in Differences (DID) estimator. I will examine whether political connections affect firm performance in different political conditions, namely the pre-election (1998-2000), appointment of Thaksin as Prime Minister (2001-2004), and declining and the coup (2005-2007) periods. Furthermore, I will use the same methodology to examine the impact of political connections on market coverage and debt financing in different political conditions.

Question 2: How are connections developed by a family business group of Thaksin Shinawatra, and do such connections benefit his family firms?

The role and development of connections will be explored by an interesting case study of the former Thai Prime Minister's family business group. I will investigate how the Shinawatra family business group developed connections with the government to expand its business empire since its establishment. Moreover, the impact of connections on performance, market share and debt financing of the Shinawatra family firms, relative to other firms in the telecommunications industry, will be investigated in different political conditions. To examine such effects, I will use

Pooled Ordinary Least Square (OLS) regressions and Difference in Differences (DID) estimator.

Question 3: Are connections between firms and the government valuable in different political conditions?

I will use the event study to investigate whether or not political connections are valuable, focusing on firms in the telecommunications industry. The existence of political connections will be defined. Firms that are owned by the Shinawatra family are classified to be closely connected to the government. Different event dates that represent the gain and loss of connections in a period of 1995-2007 will be collected and stock price reactions to those events will be measured.

1.3 Summary of the main findings

The findings show that political connections were observed in the family business group that belonged to the former Thai Prime Minister (Thaksin Shinawatra), ministers in the Thaksin's government, members of Thai Rak Thai Party and financial donators to the Thai Rak Thai Party. Politically-connected firms are different from non-connected firms in various aspects i.e. firm size, amount of external funds, market share, investment, profitability and efficiency. The performance of connected firms significantly decreases after the coup event, compared to the rising year of the Thaksin's government in 2004. The stock returns, measured by the market-adjusted cumulated abnormal returns (CARs), of connected firms are significantly less than those of non-connected firms in the military coup event year of 2006. Furthermore, connected firms are found to have higher market share in the three sample periods. However, the debt financing policy between connected and non-connected firms is not different over the long period.

In addition, the results show that long-term connections had been secured by the Shinawatra family business group, and the results demonstrate that firms within the Shinawatra business group outperform their peers in the telecommunications industry.

However, the performance, measured by the market to book ratio, of firms that are owned by the Shinawatra family is significantly less than that of other firms in the telecommunications industry in the decline-coup period. The findings also show that the Shinawatra family firms have lower leverage ratio than other firms in the same industry in the appointment period of Thaksin as Prime Minister. In contrast, the leverage ratio of the former Prime Minister family firms is higher than that of other firms in the crisis period. Furthermore, the presence of political connections is valuable, especially when firms gain connections with the government, or obtain government privileges.

1.4 Contributions

The findings of this research provide a better understanding about the role and nature of political connections in an emerging market and complement previous studies in various aspects.

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

Second, previous research investigates the significance of political connections, focusing only on the rising period of the Thaksin Shinawatra's government (Tangkitvanich, 2004b; Bunkanwanich and Wiwattanakantang, 2008). There is no empirical evidence to demonstrate the impact of such connections on the performance of politically-connected firms during the declining period of the Thaksin Shinawatra's government and after the coup. The political revolution in Thailand will evidently

show the effect of connections on firm performance because it is most likely that closely-connected firms will be most affected by this event. Evidence from this paper will also provide detailed information, including several prominent events before and after the coup, which will complement previous findings.

Third, connections between the former Prime Minister's family business group and the government represent a unique case study. The recent event of the overthrow of the former Thai Prime Minister Thaksin Shinawatra in September 2006 indicates that such political connections have widely been perceived, and have already been discouraged and relinquished to a great extent. Nevertheless, there is no empirical evidence to demonstrate that such connections have an effect on the performance of firms in the Shinawatra family business group, relative to other firms in the same industry, over a period of political revolution.

Lastly, the findings will also shed some lights about characteristics of cronyism, unfair competition and inefficient allocation of resources. This research will provide evidence to policy makers in order to enact stricter regulation to prevent potential conflicts of interest.

1.5 Structure of the research

The research is structured into five chapters as follows.

Chapter 2 reviews existing literature about connections. Prior research about the significance of connections is discussed. I examine benefits and adverse consequences of connections between firms and the government. Existing studies about political connections are reviewed.

Chapter 3 describes the background of Thai institutions including ownership structure and family business groups. The presence of political connections in

Thailand is outlined. To some extent, the rise and decline of political power of the former Prime Minister Thaksin Shinawatra is demonstrated.

Chapter 4 examines the presence of political connections in Thailand. This chapter investigates the differences between connected and non-connected firms in different political situations. This chapter also examines whether political connections have an impact on firm performance, market coverage and debt financing in different political periods from 1998 to 2007.

Chapter 5 investigates the role and development of political connections in the former Thai Prime Minister's family firms, focusing on the telecommunications industry. The business development of the group is examined along with the rise and decline of political power of Thaksin. The firm performance, market share and debt financing of the group firms are compared to those of other firms in the same industry over a long period of 1995-2007. Whether political connections are valuable is also investigated around major political events.

Chapter 6 concludes the research, addressing the objectives and the main findings of the research. The recommendations are provided. The limitations of the data and methodology are explained and possible future research is discussed.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature on the significance of connections. Connections are commonly defined as the relationships between two people or more, and are known as a network of related parties in Social Economics. The presence and significance of connections between firms and external institutions are described in this chapter. Both positive and negative consequences of connections are discussed to show different strands of thoughts.

The concept of market imperfection explains that connections help firms to reduce asymmetric information problems and transaction costs. Lower costs of searching information and a higher quantity and reliability of information could be achieved from connected parties in the network. Connections are described not only as a solution of imperfect markets, but also as a complement of a weak legal system, especially in emerging economies.

In addition, connections between firms and external institutions are discussed by focusing on political connections. In emerging markets, political connections seem to be important for firms in regulated industries and in countries where the government plays a key role in allocating licenses and controlling market entry. The presence and significance of connections between firms and the government/politicians are discussed in this chapter.

This chapter is structured as follows. Section 2.2 discusses the significance of connections that are characterised by ownership and organisational features in emerging markets. Section 2.3 discusses the benefits of political connections. In

Section 2.4, the presence and impact of political connections are reviewed to provide a better understanding of crony capitalism. Section 2.5 provides the conclusion.

2.2 Significance of connections

According to Granovetter (1973), strong connections create clustering, while weak ties, as social bridges, link all fragmented parts together, thus enhancing the information access and opportunity. Granovetter (1985) suggests that information, which individuals acquire from people with whom they have dealt before, is trustworthy and inclusive. Trusted counterparts are tied into the network through prior contacts and they deliver a higher reliability and quantity of information. Transaction costs would, therefore, be reduced due to a lower cost of searching for information.

Powell and Smith-Doerr (1994), pp. 368-369, observed that networks are viewed "as a way of governing relations among economic actors" and "as social glue that binds individuals together into a coherent system". Social relations, trust and reputation could supplement a lack of formal market mechanisms and institutions. In particular, connections are significant in terms of reducing information asymmetry problems, facilitating business operations, enforcing contracts and overcoming market failures in a country with a weak legal system (McMillan and Woodruff, 1999). Individuals rely on the reputation of each other in the network for future business contacts. If someone breaches the contract, that person's reputation and trust significantly decrease and the information is communicated within the network. In order to prevent the possibility of breaking the contract, trust and reputation are efficiently exercised. Trusted parties act as major players to facilitate business transactions and enforce the contract.

In emerging markets, controlling shareholders usually apply company's reputation or personal reputation as an informal mechanism for business connections. In general, reputation is employed in the sense that one would be trusted by others if he/she is well known in the society. Implicit contracts are often put in practices to

facilitate business transactions. Thus, people intend to maintain their reputation and trust in order to ensure a continued flow of future business transactions within the same networks (Rajan and Zingales, 1998).

According to Granovetter (1995), not only individuals, but also firms, want to connect to each other. The structure of business groups is a form of tie that binds firms together. Business groups originate from social unity, ownership linkages and hierarchical authority. The expansion of business groups is typically supported by banks, in terms of external financing, and/or by the government in terms of licenses. The existence of business groups is a consequence of accumulating capital.

Furthermore, family ownership and bank connections may reduce the likelihood of filing for bankruptcy. During the East Asian crisis, Claessens, Djankov and Klapper (2003) found evidence that bank and family connections provided informational advantages and non-market based resource allocations that encouraged out of court renegotiations. A lower cost of financing can be obtained if firms are connected with capital providers. Charumilind, Kali and Wiwattanakantang (2003) support the notion that controlling shareholders tend to form connections with banks. Their findings demonstrate that close ties between firms and banks in Thailand determine an easy access to long term bank debt.

2.3 Benefits of political connections

Faccio (2006) notes that politically-connected firms are commonly found around the world and are significantly widespread in countries with a high level of corruption and restrictions for global investments. She finds that the value of political connections, proxied for cumulative abnormal returns, is considerable, especially during appointments of large shareholders or officers of firms as politicians. Bunkanwanich and Wiwattanakantang (2008) provide additional evidence that, in Thailand, the likelihood of the owners of family business groups entering into the politics and taking political office is positively related to the revenue from the

government concessions. Firms that are owned by the Prime Minister's family generate higher returns, compared to other firms in the Thai stock market (Tangkitvanich, 2004b).

Thanks to a richer extent of information, it is apparent that connections with influential politicians matter for business entry and opportunity, notably if firms operate in regulated industries or newly privatized countries. Agrawal and Knoeber (2001) find that political connections are common in the US. The political connection is formed by the appointment of directors who have political experience. American firms, which get involved in government purchases, trade policy and environmental regulation, widely have politically experienced directors on board. International firms also obtain useful information from connections with influential politicians in finding business alliances in South Korea where the government controls the market entry (Siegel, 2005).

During the transition of economy and politics or the change of market policies, political connections are crucial. Firms with close ties to the government or politicians can secure and sustain their competitiveness in the market by obtaining new business opportunities (Ghemawat and Khanna, 1998; Hellman, et al., 2003). In addition, stock returns of firms that are connected with key government officials are higher than other firms during the change of the government's policy in the financial crisis in Malaysia (Johnson and Mitton, 2003). However, in Indonesia, the dependence on political connections may bring about adverse consequences, since stock returns of firms with close ties to the President significantly decline when negative news about his health are announced (Fisman, 2001).

In Indonesia, connections with key politicians also facilitate firms' efforts to obtain external funds domestically as a substitute for raising funds internationally. Firms opted for foreign financing after their political alliances lost control over the country's politics (Leuz and Oberholzer-Gee, 2006). In addition, Dinc (2005) finds that political influence has an impact on bank lending of the government-owned banks in emerging markets, where the proportion of bank loans increases in election years.

In Pakistan, political connections could also influence government-owned banks to lend to firms that have a politician on their boards of directors (Khwaja and Mian, 2005).

2.4 Political connections as an adverse aspect of crony capitalism

Although political connections likely facilitate firms' operations and expansion and affect firm value, they bring about adverse results in terms of market competition, development of economy and institutions, corporate governance practices and democracy. Crony capitalism refers to an economy system in which close relationships with influential people or the government are beneficial to connected firms in terms of business opportunities, operations, performance and so on. It is possible that most family owners of firms in emerging markets would try to achieve economic rents by being associated with influential people or the government because political connections may help the family shareholders sustain their business and wealth.

Morck, Stangeland and Yeung (2000) argue that family firms that are entrenched in their wealth capital tend to limit their investment, especially on innovation. Thus, the entrenchment of family firms impedes the economic growth. In addition, lobbying activities by wealthy families hinder the development of the legal system and result in unfair competition in the market. In the countries with a wide inequality of income, wealthy people have incentives to keep a low level of investor protection and competition intensity in order to protect their interests and to limit new business entrants (Perotti and Volpin, 2004).

Cronyism becomes a major issue in corporate governance because close ties may create low transparency and increase the likelihood of expropriation (Rajan and Zingales, 1998). Fan and Wong (2002) argue that political lobbying activities are widespread and controlling shareholders, as political rent seekers, limit the information to outsiders in order to avoid potential competition and social sanctions.

Low transparency thus leads to asymmetric information problems from which controlling shareholders gain power and conduct opportunistic behaviour over minority shareholders. As a consequence, firms with good performance may not want to be more transparent or governed because they may enjoy diverting company's resources through their rents. Aliances between the government and businessmen also result in inefficiency of resource allocation and in increased vulnerability during a period of the financial crisis (Pomerleano, 1998).

In addition, close ties in the cronyism are inefficient and cause corruption. Connections between businessmen and politicians bring about corruption even in developed countries, like the US, the UK, France and Germany (The Economist, 2003). Problems of corruption may be more severe in countries with a weak legal system. Evidence of corruption indicates that close ties between businessmen and the government adversely affect public interests and democracy in the country.

2.5 Summary and conclusion

This chapter reviews literature on the significance of connections. In emerging markets, connections are crucial and help complement market inefficiency and weak legal enforcement. Connections between firms and the government are discussed. Political connections are found to be significant and provide benefits to connected firms in terms of firm performance, business opportunities and access to external funds. However, corruption is one of the adverse results of connections between businessmen and politicians. Political connections may also result in low transparency, monopolistic power and entrenchment problems of connected firms. In addition, connections between firms and the government/politicians adversely affect the macro-economics in terms of the development of economy and market competition.

I will review the background of Thai institutions in the following chapter. The ownership structure of Thai firms and family business groups will be demonstrated.

Connections between family firms and the government will be outlined to show the significance of political connections in Thailand. The background of Thai politics will also be described and the rise and decline of political power of the former Prime Minister Thaksin Shinawatra will be highlighted.

CHAPTER 3: THE INSTITUTIONAL BACKGROUND IN THAILAND

3.1 Introduction

This chapter describes the institutional background of Thai firms in terms of their ownership structure and the role of family business groups. Connections are commonly found in Thailand through ownership relations in family business groups and through social ties between wealthy families. Ownership concentration and family firms in Thailand characterise the institutional framework within which I investigate the presence and role of connections between firms and the government.

The background of Thai politics is described. The involvement of politicians in businesses is shown to support the view that connections between firms and the government have been significant in Thailand. The country's politics in the last decade is examined to show the participation of businessmen in politics, the rise of Thaksin's government, and the political revolution in 2006.

In this chapter, Section 3.2 describes the structure of ownership and family business groups in Thailand. Section 3.3 reports the presence of political connections in Thailand and background of Thai politics. The last section concludes the chapter.

3.2 Ownership structure and business groups in Thailand

In emerging markets, firms operate in a weak legal system in terms of contract enforcement and creditors/shareholders' protection and are characterised by concentrated ownership and family business groups. Previous evidence (e.g. La Porta, Lopez de Silanes and Shleifer, 1999; La Porta, et al., 1998, 2000; Claessens, Djankov and Lang, 2000; Khanna, 2000; Khanna and Yafeh, 2005; Faccio and Lang, 2002) has illuminated the nature and role of the institutional frameworks of emerging economies

and the differences in ownership structure, which are characterised by a diffused ownership structure in developed countries (mainly the US), and a concentrated ownership structure in emerging countries.

In Thailand, the ownership structure is highly concentrated in the majority of firms (Wiwattanakantang, 2001). In her paper, Wiwattanakantang traces the ultimate shareholders of Thai firms through a chain of companies, including privately-held companies, and through family relationships. She finds that the minimum shareholding of the largest shareholder is 6%, indicating a relatively concentrated ownership structure.[2] The family is the firm's controlling shareholder and family owners play a key role in the firm's management through their presence on the firm's board of directors.[3] The family controlling shareholders, in practice, manage the firms themselves.

It is common that the ultimate shareholders are not directly disclosed and are not reported in the list of major shareholders. The controlling shareholders may hold a percentage of shareholding under their individual names and/or their privately-owned firms. The total family ownership also includes a shareholding of family members and members of in-law families. Although Wiwattanakantang's study of shareholdings in 1996 occurred during a period of normal economic conditions, the results of a long-term ownership analysis might have been more interesting. In particular, the long-term study that covers the crisis year may shed more light on the institutional and economic development compared to the short-term study.

The impact of an economic shock on ownership structure in Thailand is investigated by Khanthavit, Polsiri and Wiwattanakantang (2003), who use the East Asian Crisis in 1997 to investigate the change of ownership structure and examine the ownership structure of Thai non-financial firms listed on the Stock Exchange of

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[2] Claessens et al. (2000) note that the ownership structure of Thai firms is the most concentrated in terms of average cash flow rights and average voting rights, when compared to firms in other East Asian countries.

[3] A controlling shareholder is defined as a shareholder with more than 25% shareholding according to the Thai Public Company Act.

Thailand in 1996 and 2000. The authors use the same definition of controlling shareholder, and methodology, in tracing ultimate shareholders as does Wiwattanakantang (2001). They note that the ownership structure of firms in Thailand before and after the crisis did not change much. They find that about 80% of sample firms in 1996 and 2000 had a controlling shareholder with at least a 25% shareholding.

The results show that direct ownership was commonly used as a control mechanism in Thai firms in both the pre-crisis and post-crisis periods. The pyramidal and cross-shareholding control mechanisms were not often used in Thai firms in both economic periods. Interestingly, the presence of family controlling shareholders on firms' boards of directors continued from the pre-crisis to post-crisis periods. Despite the economic shock, family-owned firms and family shareholders remained influential in firms' management.

In the ownership concentration, the agency problems between controlling shareholders and minority shareholders may exist. The ownership concentration of Thai firms indicates both interest alignment and conflicts of interest between controlling shareholders and minority shareholders. Wiwattanakantang (2001) uses a sample of listed non-financial companies in 1996 to examine the impact of ownership concentration on firm performance. She finds that the presence of controlling shareholders is related to higher accounting performance (ROA and sales-asset ratio), and the effect of a dummy variable for family-controlled firms on firm performance is positively significant. However, this positive effect is partially offset by the negative effect of the participation of controlling shareholders in the management team. The result indicates that there is potential for controlling shareholders to pursue their own benefits at the expense of minority shareholders.

The formation of business groups and business network structure in Thailand has been characterised by high ownership concentration and family owners. Suehiro (1989) provides evidence of the existence of business groups and close ties among large and wealthy families in Thailand. For example, tax farmers and big rice millers,

who were leading capitalists in the mid 1850s and in the 1930s-1940s, respectively, both expanded their businesses and increased family wealth by intermarriage among connected wealthy families. The family and business expansion resulted in a transformation of several big family firms into conglomerates or a structure of holding companies and associates after the 1960s.

Phipatseritham and Yoshihara (1983) describe that the development of capitalism in Thailand was influenced by market competition and industrialisation. This stage of economic development was dominated by firms of Chinese and local-born Chinese businessmen. The shared and concentrated ownership in family firms, trading networks and political support facilitated the formation and expansion of family business groups into financial conglomerates, industrial groups and agribusiness groups. An example of an influential family business group is the Charoen Pokphand Group (CP), which started its family business as a small seed shop in China Town, Bangkok. The CP Group obtained business opportunities provided by the government and a number of joint ventures with the government in accumulating family wealth. The group has expanded its family firm into various kinds of business activities such as agribusiness, trading, distribution, telecommunications and manufacturing and eventually, became a global conglomerate.

In addition, Polsiri and Wiwattanakantang (2003) investigate the evolution of Thai business group structure, reporting that several business groups have sustained their wealth in the long term. The Siam Cement Company of the Crown Property Bureau, Bangkok Bank of the Sophonpanich family, and CP Group of the Jiaravanon family, remained the top three largest business groups in 1984, 1994 and 1997. The authors find that a majority of affiliated firms of Thai business groups are not listed on the Stock Exchange of Thailand. Almost all business group firms and non-group firms were controlled by a direct shareholding between 1995 and 2000. However, the control structure of business group firms is more complicated in the form of pyramidal and cross-shareholding structure than non-business groups. In addition, the control structure of business groups has not significantly changed since the crisis period.

3.3 Political connections in Thailand

> "Doing a business in Thailand, know-how is not as important as know-who."[4]

In 1932, it was a historical year of the Thai politics when the absolute monarchy was changed to the constitution by military coup. Suehiro (1989) documented that this first government was highly concerned about communist, especially from China, and therefore took a serious restriction on Chinese immigration by enacting the Aliens Act. Several businesses, which were dominated by Chinese people (e.g. salt, bird's nest and tobacco), were taken over by the government. As a result, connections with bureaucrat capitalist groups were necessary for obtaining business protection and opportunities.

Baker and Phongpaichit (2002b) also provide evidence that political connections were developed by Thai and local-born Chinese entrepreneurs. Business associations were established and led by domestic leading merchants, namely Nai Lert, Nai Boonrawd and Nai Mangkorn. They lobbied the government to introduce an import-substitution strategy to help domestic entrepreneurs compete with foreign companies. Moreover, several business alliances, i.e. joint ventures in the banking and trading industry were established in consequence of connections between firms and leading military politicians. These politicians were tied with connected firms by an ownership shareholding or were appointed as directors in connected firms (Suehiro, 1989). They obtained private benefits in terms of dividends and bonuses. In return, connected firms would gain business protection and government funding. However, such connections were found to cause unusual wealthy of several leading politicians and problems of corruption in Thailand (Baker and Phongpaichit, 2002b).

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[4] Quotation from an outspoken and well-known businessperson, who criticised the politics of business and admitted that lobbying still plays a major role in the local scene in Thailand, reported by Intarakomalyasut in Bangkok Post on 28 September 1996.

After 1960s, the Investment Promotion Act was enacted and the government monopolies were loosen to some extent. The government led by the Prime Minister Sarit Thanarat introduced an export-oriented industrialization. During this period, the oligopolistic market structure was dominated by local business groups that were connected with politicians and received privileges from the government (Suehiro, 1989). Close ties with politicians helped firms obtain valuable information, preferential taxation and government contracts. Thus, several foreign companies started to establish partnerships or joint ventures with politically-connected firms in order to enter into businesses in Thailand (Baker and Phongpaichit, 1998).

Since student demonstrations took place against the military government in the early 1970s, civil governments have replaced military governments. Urban demand, industrialization and powerful technocrats appeared to influence economic policies. Labor-intensive industries and manufacturing exports drove the country's GDP growth in 1980s and 1990s. Baker and Phongpaichit (2002b) describe that connections between businessmen and bureaucrats through kinship, friendship and intermarriage were found in this period. Political connections remained dominant because several industries were under-regulated. Leading bureaucrats and technocrats, who were connected with companies, played a role in lobbying the government in order to gain preferential treatment.

While the export-led economy drove the growth of capitalism, the Stock Exchange of Thailand (SET), which was set up in 1975, became an active capital market. The boom period of the SET encouraged the existence of political connections. In 1990s, connected businessmen were major financial sponsors or donators to support an expansion of political parties and political elections (Hewison, 2000). They allocated some shareholding of their firms at a low price to connected politicians in the initial public offering period.

> "..in the initial offering, shares would be placed with big market players and well-connected members of elite, such as the military, politicians and business people…it is important to note that no one, and no authority, in

> the 1987-92 period attempted to interfere with this practice – it was considered "normal". (Handley, 1997 p. 100)

In consequence of this practice, both connected businessmen and politicians gained substantial profits when stock prices increased (Handley, 1997; Hewison, 2000).

Thai politics in 2000s had obviously shown the presence of political connections between family firms and the government. Thaksin Shinawatra, the former leader of Thai Rak Thai Party, was appointed Prime Minister in February 2001. It was the first time of Thai politics that a political party won the election with an absolute majority and the Prime Minister was closely connected to businesses. The involvement of the owners of Thai family business groups in the politics by assuming political office, i.e. of becoming tycoons-cum-leaders was also obviously found in the Thaksin's government (Bunkanwanich and Wiwattanakantang, 2008). The Shinawatra family was a major shareholder of firms in the telecommunications industry and families of several ministers in the Thaksin's government also held a large shareholding of firms.

Although Thaksin and his governments had survived a full 4-year term administration (2001-2004) and continued the second term after the 2005 election, many corruption allegations during a 5-year administration period were publicly perceived. It has been criticized that Thaksin changed regulations to benefit his connected firms (Bunkanwanich and Wiwattanakantang, 2008). During his appointment as Prime Minister, the media freedom was intervened and restricted (Nelson, 2005). The decline of Thaksin's political power was clearly shown by anti-Thaksin protestors and invalid election in April 2006 (The New York Times, 2006; The Nation, 2006a). In particular, the rumour and the announcement of the share sale in Thaksin's family firm (Shin Corporation) to Singapore's Temasek Holdings incited the public. Several issues of this acquisition, such as tax-free gains from the deal and the change in the regulation on foreign ownership in the telecommunications industry to facilitate the deal, had evidently shown adverse consequences of political connections (Straits Times, 2006a). Accordingly, the military coup was announced in September 2006 to oust Thaksin because of extensive corruption.

3.4 Summary and conclusion

In Thailand, it is likely that the structure of concentrated ownership and family business groups encourages business owners to develop connections with outside institutions. The government is one of important external institution that provides business opportunities and protection. It is documented that connections between firms and the government are obviously found and they are important in doing businesses in Thailand. Although political connections bring about benefits to connected firms, they lead to adverse effects in terms of cronyism and corruption. The event of political revolution in 2006 has shown that connections between the leader's family business and the government lead to corruption and they are detrimental.

How I will attempt to fill the gap in previous research is now described. Studies about political connections in relation to corporate finance research are in the early stage of investigation, and it is of both interest and importance to further study the role and development of such connections. The Thai military coup in 2006 shows the adverse consequences of close inter-relationships among firms and the government. I will examine the role and the presence of political connections in an emerging market, using Thailand as a representative, since there are similar institutional characteristics in terms of concentrated ownership, family firms and a weak legal system.

Given the significance of political connections, it is interesting to investigate the differences in firm characteristics between firms with and without political connections. Using a large-sample analysis, I will investigate the impact of political connections on firm performance in different political conditions from 1998 to 2007 in Chapter 4. The findings will complement results of the effect of political connections on firm performance in previous research (e.g. Tangkitvanich, 2004b and Bunkanwanich and Wiwattanakantang, 2008), because a longer time frame will show the rise and decline of political power of the Thai government. I will also examine whether the presence of political connections have an impact on market coverage and debt financing of firms.

In addition, in Chapter 5, I will use an interesting case study of the former Thai Prime Minister's family business group to provide a detailed description about the presence of connections between his family business group and the government. The development of political connections will be described together with the expansion of the family business group over a long period. The impact of connections on the long-term firm performance will be investigated using firms in the telecommunications industry. The findings of this case study will complement previous research that investigates political connections in emerging markets using large samples (e.g. Fisman, 2001; Johnson and Mitton, 2003; Bunkanwanich and Wiwattanakantang, 2008). In addition, the findings will shed light on a dispute that the outstanding performance of firms in the Shinawatra family might have been caused by other competence factors, not by connections that Thaksin Shinawatra had developed with the government.

CHAPTER 4: THE IMPACT OF POLITICAL REVOLUTION ON FIRM PERFORMANCE

4.1 Introduction

This chapter investigates the impact of political connections on firm performance in the context of family-owned firms in Thailand. The previous chapter reviewed the presence of political connections in Thailand. The government of Thaksin Shinawatra demonstrates the involvement of business owners in politics. Companies that were owned by families of Prime Minister and ministers are believed to be closely connected to the government. Major events of Thai politics in the last decade, e.g. the appointment of Thaksin as Prime Minister in 2001 and the military coup in 2006, characterise the gain and loss of political connections.

It is possible that, in the rising period of Thaksin government, political connections have a positive impact on firm performance, since such connections may provide benefits and business opportunities to firms. Thus, politically-connected firms may have better performance than non-connected firms. Benefits of political connections may also help firms to obtain an easy access to external fund and better market position. As a result of the loss of political connections, it is interesting to investigate whether there is any difference in performance between firms given the perception that political connections after the coup are relatively lessen. The similarity or otherwise of market coverage and debt financing between firms may reflect the change of competitive advantages and access to external financing of connected firms.

On the one hand, political connections may help to obtain benefits. Connected firms seem to gain business opportunities and better performance. On the other hand, connections between firms and the government in the context of cronyism through family ownership in Thailand raise concerns about corporate governance and unfair treatment. Evidence of corruption and regulation amendment of the Thaksin's

government demonstrates the negative results of political connections. Firms without political connections may face difficulty in competing in the market and accessing external funds for their investment.

The rest of the chapter is structured as follows. In Section 4.2, the background and literature survey of the significance of political connections are discussed. Section 4.3 describes the research questions and hypothesis development. The data and research methodology are described in Sections 4.4 and 4.5 respectively. Descriptive statistics are provided in Section 4.6, and Section 4.7 shows the empirical results of: (1) the impact of political revolution on firm performance, (2) the impact of political connections on market coverage, and (3) the impact of political connections on debt financing. The last section summarised and concluded the chapter.

4.2 Background and literature survey

In emerging markets, connections seem to be driven by the key institutional characteristics of concentrated ownership and business groups. Although connections are commonly found in emerging economies, the nature and significance of connections have only recently become the object of investigation. Some researchers document positive views about connections. "A network is composed of a set of relations or ties among actors (Powell and Smith-Doerr, 1994)". They analyze that in a society, there are essential connections between economic practices and institutions to develop industrialization. Not only economic actors aggregate into firms, but firms also want to connect to each other (Granovetter, 1995). Under the context of weak law enforcement and lack of formal institutions, network comes to play a key role to facilitate business operations and enforce contracts (McMillan and Woodruff, 1999).

However, these positive views have been opposed by Rajan and Zingales (1998) that close ties create low transparency, increase likelihood of expropriation and brought about Asian crisis. Consistent with this, findings of Pomerleano (1998) that excessive borrowing led to overinvestment and the crises support the argument of

cronyism, conflict of interests and resource misallocation. La Porta, Lopez de Silanes and Zamarripa (2003) also note that private benefits and expropriation are facilitated by related lending. Crony capitalism, which is referred to an economy for friends and closed relationships, has become a major issue in corporate governance since the financial crises in emerging markets.

The presence and impact of political connections provide a better understanding of crony capitalism. Literature on political connections is growing in the finance and economics research area. Political connections have been found in firms around the world (Faccio, 2006). Previous empirical research investigates whether political connections matter and are valuable at firm level in emerging markets such as India, Indonesia, Malaysia and South Korea (e.g. Ghemawat and Khanna, 1998; Fisman, 2001; Johnson and Mitton, 2003; Siegel, 2005).

Fisman (2001) uses Indonesian firms to investigate whether or not political connections are significant and measures stock price reactions to news of the President's health. He applies a dependency index of political connections, which specifies a one to five rating range of dependency, to a sample of 79 firms, for example, the firms that are affiliated with the children of Suharto receive a five-point score. This index is developed by the leading Indonesian consulting firm for a sample of the 25 largest Indonesia industrial groups. Fisman finds that the returns of firms that are dependent on political connections significantly drop following the negative news about the President's health.

Using firms in Malaysia, Johnson and Mitton (2003) investigate the impact of political connections on the stock performance of Malaysian firms that are connected to the Prime Minister Mahathir. They use an event study during the period of the Asian crisis in order to examine the impact of political connections on stock performance, starting from the devaluation of the Thai baht at the beginning of the crisis to the end of the crisis and covering the imposition of capital controls in September 1998. They define firms with political connections as those in which the officers or major shareholders have a close relationship with key government officials,

primarily Mahathir, Daim and Anwar.[5] They find that the stock returns of firms with political connections significantly declined in the early period of the crisis but, after the government announced the imposition of capital controls, the stocks of these firms experienced a higher return.

In addition, political connections have been investigated by Ghemawat and Khanna (1998), who conduct a case study of the two largest Indian business groups, R.P. Goenka Enterprises and Ballarpur Industries Limited, to provide evidence about the impact of political connections on business opportunities in India. They suggest that the R.P. Goenka group, whose Chairman became an elder Indian statesman, remained competitive in the market through its business expansion after the liberalisation and reform period in 1991. This Chairman Emeritus helped his own business group to secure its position and sustainability by obtaining business licenses from the government. His business group was restructured and expanded to include new businesses in the power and telecommunications industry. In contrast to the expansion strategy of the R.P. Goenka group, Ballarpur Industries had to divest some of its businesses and maintained only its core businesses for the group's sustainability. Ghemawat and Khanna argue that in a country where the government plays a key role in distributing rents, connections with the government help firms to survive in the market by securing new business opportunities.

In Thailand, political connections are also widespread, especially between wealthy families and the government (Bunkanwanich and Wiwattanakantang, 2008). The authors use firms in Thailand to investigate the impact of political connections on firm performance by focusing on the participation of firms' family owners in national politics. They find that the higher the revenue from the government concessions, the higher the likelihood of the owners of family business groups entering into the politics. The events examined are the announcements of a new law, a government

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[5] They are three dominant persons who provided valuable connections to firms in Malaysia. Dr. Mahathir Mohamad was the Prime Minister of Malaysia. Daim Zainuddin was the Finance Minister early in Mahathir's term and was brought back into the government in 1998. Anwar Ibrahim was the Deputy Prime Minister.

concession fee cut and a tax exemption affecting telecommunications firms. The authors find that the market-adjusted cumulative abnormal returns of firms that belong to tycoons-cum-leaders (TCLs) are significantly larger than those of non-TCL firms during the event period. The market shares of TCL firms significantly increase after the TCLs take office. Tangkitvanich (2004) also documents similar findings. Using listed firms in Thailand, he finds that firms that are owned by Prime Minister Thaksin Shinawatra's family perform much better than other firms in the stock market in 2003. It seems that Thaksin secures benefits for his family firms by changing regulations and gaining privileges from the government.

4.3 Research questions and hypotheses

This chapter examines the impact of political connections on firm performance, market coverage and debt financing in the context of family-owned firms in Thailand. In addition, major political events in the 2000s provide an opportunity to study the impact of connections in different political conditions. The political conditions are classified into the pre-election (1998-2000), appointment of Thaksin as Prime Minister (2001-2004), and declining and the coup (2005-2007) periods. These periods represent the gain and loss of political connections. I investigate two main research questions as follows.

Research question 1: Do political connections affect firm performance, market coverage and debt financing?

Most Thai firms are owned and controlled by family shareholders. The controlling family shareholders of firms play a key role in developing connections with the government. As described in Chapter 3, it is obvious that family owners are involved in politics in the Thaksin's government. Family firms of Prime Minister and of several ministers seem to obtain higher benefits, e.g. government contracts, privileges and favourable policies, compared to non-connected firms. As a result, firms with political connections may have better performance than non-connected

firms. Under the alternative hypothesis, the performance of firms with political connections is expected to be higher than that of non-connected firms without political connections.

In addition, it is likely that connected firms may gain competitive advantages as a result of privileges and favourable policies. Thus, market coverage of connected firms may be higher than that of non-connected firms if connected firms have higher competitive advantages. Under the alternative hypothesis, the market share of firms with political connections is expected to be higher than that of non-connected firms.

Connections help reduce information asymmetry problems between firms and external institutions. Financial institutions may prefer to lend to connected firms because they can rely on trust and the reputation of connected firms. Consequently, it is possible that firms with political connections obtain an easy access to external financing. Under the alternative hypothesis, the leverage ratio of firms with political connections is expected to be different from that of firms without political connections. I expect the leverage ratio of connected firms to be higher than those of non-connected firms.

Under the alternative hypotheses, the performance, market share and leverage ratio are higher for connected firms than for non-connected firms in the appointment period of Thaksin as Prime Minister (2001-2004).

H1 (1.1): The performance is higher for connected firms than for non-connected firms.

H1 (1.2): The market share is higher for connected firms than for non-connected firms.

H1 (1.3): The leverage ratio is higher for connected firms than for non-connected firms.

As a result of the decline of political power of the Thaksin's government, advantages that connected firms had benefited from are unlikely to continue in the declining and coup period, and it is interesting to investigate whether this possibility is

actually a reality. In addition, in the Pre-election period, the performance, market coverage and debt financing of these firms may not be different from other firms. I use the same alternative hypotheses in research question (1) to examine the impact of political connections on firm performance, market share and leverage ratio in the Pre-election (1998-2001) and decline-coup (2005-2007) periods.

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

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

Under the alternative hypotheses, the performance, market share and leverage ratio are higher for connected firms than for non-connected firms after the gain of political connections.

H1 (2.1): The performance is higher in connected firms, compared to non-connected firms, after the gain of political connections.

H1 (2.2): The market share is higher in connected firms, compared to non-connected firms, after the gain of political connections.

H1 (2.3): The leverage ratio is higher in connected firms, compared to non-connected firms, after the gain of political connections.

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

4.4 Data

The sample comprises 1,893 firm-year observations of non-financial firms listed on the Stock Exchange of Thailand (SET). The sample period spans the political revolution in 2006 in Thailand, covering the years between 1998 and 2007, and indicates the gain and loss of political connections of the former Prime Minister Thaksin Shinawatra. The sample period is divided into the pre-election (1998-2000), appointment of Thaksin as Prime Minister (2001-2004) and decline-coup (2005-2007) periods.

The financial data are collected from the Worldscope database, which compiles company information of Thai firms from the Stock Exchange of Thailand. The company annual financial statement is publicly available data that listed companies are required to submit to the Stock Exchange of Thailand. In addition, the stock return index for each sample firm is collected from Datastream to calculate market-based performance (returns on individual stocks). The stock return index of Datastream represents a growth of investment in the total value of a stock, assuming that dividends are re-invested to purchase new units of the stock at the closing price end of day. Using the return index from Datastream, the total returns for individual stocks are calculated as the total returns i.e. capital gain and dividend yield.

I will classify sample firms into two groups: firms with and without political connections. The role of family owners in developing connections with external institutions to obtain benefits for their family firms is of main interest. Family business groups are long-established institutions in Thailand (Phipatseritham and Yoshihara, 1983; Suehiro, 1989). They are entities that demonstrate a family's or a

group of related families' wealth. Suppose that as a result of high ownership incentives, a large family shareholder has an objective to sustain the family firm for his family succession and wealth.[6] The large shareholder may become an agent of the firm's shareholders to form connections with the government in order to gain privileges, business opportunities and/or protections because those benefits likely increase competitive advantages and results in higher performance.

In the period of 2001-2004 (the appointment of Thaksin as Prime Minister), firms are grouped into politically-connected firms if they meet one of the following definitions, (1) firms that are owned by family members of the Shinawatra family (defined as the closely-connected firms with the government), (2) firms that are owned by family members of ministers in the Thaksin's governments in a period of 2001-2004, (3) firms that are owned by family members of the Thai Rak Thai Party's members, and (4) firms that are owned by family members of the Thai Rak Thai Party's donators (the financial supporters for the 2001 election), given that a member of his/her family or related families holds 10% shareholding or more of the firm. I use a cut-off point of ownership shareholding at 10% to define a major shareholder as prior literature suggests that such a stake lends sufficient power.[7]

If there is more than one shareholder with 10% or more, all of them are assumed to have similar interest. In the context of family-owned institutions, a firm is established by shared capital between families. I assume that conflicts of interest between large shareholders are not existent because they are in alliance. Hostile takeovers are not a common strategy in obtaining a large shareholding to become a controlling shareholder of the firm. The large shareholding of the firm is held and retained by the family. The large percentage of company shares is not actively traded in the stock market in order to prevent a hostile takeover, therefore I assume that there is no possibility of having two conflicting large shareholders or more in the firm.

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

[7] A major/large shareholder is defined as a shareholder with more than 10% shareholding, following La Porta et al. (1999) and Claessens et al. (2000).

Connections play a key role in accumulating wealth and expanding a business empire in emerging economies. Not only a large shareholder himself, but also his family members and related families, are often involved in developing and maintaining connections. I assume that there is no conflict of interests between the large shareholder and his related families because the main objectives of family firms are to maximise family wealth and to sustain family reputation for succession.

Several sources of information are collected to define the presence of political connections, including the Stock Exchange of Thailand, Thai government, Thai Rak Thai Party and Election Commission of Thailand. I collect 1) lists of family relationships, 2) lists of the ownership structure of Thai firms, 3) lists of Thai Cabinet, 4) lists of Thai Rak Thai Party's members, and 5) lists of financial supporters to Thai political parties. In order to trace ultimate shareholders, additional sources of information are used. Those information sources include the Business On-line database, company files (Form 56-1), lists of family business groups, lists of affiliated firms, and several books about wealthy families in Thailand.[8]

I use data of family relationships and ownership data as collected and processed by Khanthavit et al. (2003) and Polsiri and Wiwattanakantang (2003). They produce a comprehensive ownership database of Thai firms between 1995 and 2000, showing ultimate shareholders. The list of major shareholders provided by the Stock Exchange of Thailand includes the names of shareholders, who own at least 0.5% in a firm. However, it does not report the firm's ultimate shareholders. An ultimate shareholder is a major shareholder, who holds shares through related families, private companies or firms of related families. The ultimate shareholding is calculated by combining direct shareholding, pyramidal shareholding and cross-shareholding.[9] In this study, the

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

[9] The authors define direct and indirect shareholdings as follows. "Direct ownership" means that a shareholder owns shares under his own name or via a private company owned by him. "Indirect ownership" is when a company is owned via other public firms or a chain of public firms. This chain of control is in the form of pyramidal

ownership structure of Thai firms after 2000 is defined as in Khanthavit et al. (2003) and Polsiri and Wiwattanakantang (2003).

Observations are excluded from the sample if financial data, stock return index and ownership data are missing. It is important to note that ownership data and financial data are excluded when the firm is de-listed. For each sample year, I have cross-section data. For each cross-section data between 2001 and 2004, I classify firms into "connected" and "non-connected" firms according to the available data in that year. A firm is defined as politically-connected according to each of the four connection definitions.[10] The percentage of connected firms is 13% in the appointment period of former Prime Minister Thaksin (2001-2004). Subsequently, firms that are defined as connected firms between 2001 and 2004 are investigated in the pre-election (1998-2000) and decline-coup (2005-2007) periods.

Table 4.1: Industry distribution

This table reports the number and the percentage of total firm-year observations from 1998 to 2007, covering three sample periods. The Stock Exchange of Thailand classifies eight industries of non-financial listed firms which are 1) Agribusiness and Food Industry, 2) Consumer Products, 3) Industrials, 4) Property and Construction, 5) Resources, 6) Services, 7) Technology, and 8) Others. The total observations are 1,893 observations.

Industry	Pre-election (1998-2000)		PM appointment (2001-2004)		Decline-coup (2005-2007)	
1) Agribusiness and Food	87	17%	116	16%	87	14%
2) Consumer Products	42	8%	48	6%	34	5%
3) Industrials	74	14%	103	14%	77	12%
4) Property and Construction	118	23%	156	21%	146	23%
5) Resources	19	4%	39	5%	36	6%
6) Services	109	21%	159	21%	140	22%
7) Technology	63	12%	112	15%	98	16%
8) Others	9	2%	12	2%	9	1%
Total	521	100%	745	100%	627	100%

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structures and/or cross-shareholdings, which can include many layers of firms.

[10] In this research, I focus on observable data to define and quantify variables of connections between firms and the government. However, one may argue that family linkages with all related families may be extended into an extremely large network. Although it is possible that some linkages of families may be missing, those connections are likely to be much weaker and less significant compared to the observed ones.

Therefore, the final sample includes 521 firm-year observations in the pre-election period (1998-2000), 745 firm-year observations in the appointment period of Thaksin as Prime Minister (2001-2004) and 627 firm-year observations in the declining and coup period (2005-2007). Total observations are 1,893 firm-year observations from 1998 to 2007. Table 4.1 demonstrates the industry distribution of total observations in eight industries as classified by the Stock Exchange of Thailand. The percentage of firm-year observations, classified by industries, is similar in three different periods. The classification of the eight industries is shown in Appendix 4.1.

4.5 Methodology

I will use descriptive statistics and tests for the equality of mean and median values to investigate the differences in characteristics between firms with and without political connections before and after the coup. Financial variables used in the descriptive statistics are as follows. Total assets and natural logarithm of total assets are indicators for size. The measures of capital structure or sources of debt financing include the value of long-term debt and total liabilities. Leverage ratio is defined by a ratio of long-term debt to total assets. Market share is measured by a ratio of a firm's total sales to total sales of all firms in the same industry. Fixed asset ratio and the ratio of capital expenditure to total assets are measures of a firm's investment. Indicators of accounting-based performance include return on assets, returns on equity, industry-adjusted return on assets and industry-adjusted return on equity. The return on assets is a ratio of earnings before interest and tax to total assets. The return on equity is measured by a ratio of earnings before interest and tax to total equity. To calculate the industry-adjusted return on assets (MROA), I use industry mean weighted benchmark. Coverage ratio is a ratio of earnings before interest and tax to interest expenses. Total asset turnover and fixed asset turnover ratios are measures of a firm's efficiency.

I use the Pooled Ordinary Least Square (OLS) method with standard errors clustered at the firm level for all specifications. The t-statistics computed using the clustered standard errors are adjusted for heteroscedasticity. All regression

specifications are controlled for industry effects. Industry dummies of seven industries are included.[11] To examine whether political connections have an impact on firm performance, I use the following specification, in which $Performance_{i,t}$ is accounting-based performance, $Con_{i,t}$ is a dummy variable that is one if the firm is politically-connected according to the above four definitions, and zero otherwise, $Period_{i,t}$ is a dummy variable that is one in the period of Appointment, and zero otherwise (Period dummy is also defined for the periods of Pre-election or Decline-Coup), $Con_{i,t} * Period_{i,t}$ is an interactive dummy between the connection dummy and the period dummy, $Size_{i,t}$ is natural logarithm of total assets, $Sales_{i,t}$ is total sales, $PPE_{i,t}$ is total property, plant and equipment, $LTD_{i,t}$ is long-term debt, and $TA_{i,t}$ is total assets. Size, fixed asset ratio and leverage ratio are used as control variables.

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

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

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

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

The market benchmark is the market index (the index of Stock Exchange of Thailand (SET). The SET index is a market capitalisation weighted price index that compares the current market value of all listed common stocks with the value on the base value of 30 April 1975 (the date when the SET index was established and set at

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

100 points). The market-adjusted abnormal returns (AR) are the difference between individual stock returns ($r_{i,t}$) and the market return ($r_{m,t}$).

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

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

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

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

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

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

To examine whether political connections have an impact on market coverage, I use the following specification, in which $Mkt\,share_{i,t}$ is a ratio of a firm's total sales to total sales of all firms in the same industry, $Con_{i,t}$ is a dummy variable that is one if the firm is politically-connected according to the above four definitions, and zero otherwise, $Period_{i,t}$ is a dummy variable that is one in the period of Appointment, and zero otherwise (Period dummy is also defined for the periods of Pre-election or Decline-Coup), $Con_{i,t} * Period_{i,t}$ is an interactive dummy between the connection dummy and the period dummy, $ROA_{i,t}$ is return on assets, $LTD_{i,t}$ is long-term debt, and $TA_{i,t}$ is total assets. ROA and leverage ratio are used as control variables.

$$Mkt\,share_{i,t} = \alpha_{i,t} + \beta_1 Con_{i,t} + \beta_2 Period_{i,t} + \beta_3 (Con_{i,t} * Period_{i,t}) + \beta_4 ROA_{i,t} + \beta_5 \frac{LTD_{i,t}}{TA_{i,t}} + \varepsilon_{i,t}$$

To examine whether political connections have an impact on debt financing, I use the following specification, in which $LTD_{i,t}$ is long-term debt, $TA_{i,t}$ is total assets, $Con_{i,t}$ is a dummy variable that is one if the firm is politically-connected according to the above four definitions, and zero otherwise, $Period_{i,t}$ is a dummy variable that is one in the period of Appointment, and zero otherwise (Period dummy is also defined for the periods of Pre-election or Decline-Coup), $Con_{i,t} * Period_{i,t}$ is an interactive dummy between the connection dummy and the period dummy, $Size_{i,t}$ is natural logarithm of total assets, $Sales_{i,t}$ is total sales, $PPE_{i,t}$ is total property, plant and equipment, and $ROA_{i,t}$ is return on assets. Size, fixed asset ratio and ROA ratio are included in the following specification to control for the impact of firm characteristics on firm financing policy.

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

To investigate the impact of political connections on firm performance, market coverage, and debt financing, the connection dummy is included in the regression specification. The coefficient of the connection dummy is expected to be positive if the performance, market share and leverage ratio of connected firms are higher than those of non-connected firms. In addition, I include an interactive dummy between the connection dummy and the period dummy ($Con_{i,t} * Period_{i,t}$), using non-connected firms as a base group. The performance, market coverage, and debt financing of firms with political connections may be higher, compared to non-connected firms, in the appointment period (2001-2004), therefore the coefficient of the interactive term ($Con_{i,t} * Period_{i,t}$) is expected to show a positive sign. However, the performance, market coverage, and debt financing of connected firms may be lower, compared to non-connected firms in the Decline-coup (2005-2007) period, therefore the coefficient of the interactive term ($Con_{i,t} * Period_{i,t}$) is expected to show a negative sign.

Table 4.2 shows pairwise correlation coefficients between variables in the OLS

specification for the full sample (1,893 firm-year observations) between 1998 and 2007. I find significant correlations between variables in all specifications at the 5% significance level or better. The correlations between the industry adjusted return on assets and the fixed asset ratio and between the market share and the fixed asset ratio are however not significant. As shown in Table 4.2, none of the correlations exceeds 0.5; therefore multicollinearity does not seem to be a problem in this specification. In addition, the pairwise coefficient correlations between variables in the specification are reported for each of three political periods for additional information in Appendix 4.1.

Table 4.2: Pairwise correlations

This table reports pairwise correlation coefficients between variables for 1,893 observations from 1998 to 2007. The asterisk (***), (**) and (*) indicates significance at levels of 1%, 5% and 10% respectively. The figures in parentheses report p-value of each correlation coefficient.

	Industry-adjusted ROA	LTD/ Total assets	Market share	Ln (total assets)	Total PPE/ Total assets
Industry adjusted ROA	1				
LTD/Total assets	-0.1128*** (0.0000)	1			
Market share	0.0527** (0.0220)	0.0451** (0.0496)	1		
Ln(total assets)	0.057** (0.0131)	0.2565*** (0.0000)	0.4161*** (0.0000)	1	
Total PPE/Total assets	-0.026 (0.2566)	0.149*** (0.0000)	-0.03 (0.1926)	-0.095*** (0.0000)	1

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

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

4.6 Descriptive statistics

The descriptive statistics are divided into 1) summary statistics for all observations between 1998 and 2007, and 2) differences between firms with and without political connections in three political periods (pre-election (1998-2000), Prime Minister (PM) appointment (2001-2004) and decline-coup (2005-2007) periods). The summary statistics of the aggregate data describe the data of all sample firms used in this chapter. I subsequently examine whether firms with political connections are different from those without political connections in Thailand in different time frames.

4.6.1 Summary statistics

The summary statistics are reported for a total of 1,893 firm-year observations between 1998 and 2007, covering the pre-election, PM appointment and decline-coup periods. I winsorise the data in order to deal with both positive and negative outlier values of financial data. The financial data are winsorised at the 5th percentile and 95th percentile. The mean, median, standard deviation, minimum and maximum of all financial variables, are shown in Table 4.3.

The findings of Table 4.3 show that sample firms are both large and small, with total assets varying between 492 Million Baht and 51,214 Million Baht with an average and median value of 8,241 Million Baht and 2,619 Million Baht, respectively. Other measures of size demonstrate a similar view. The total sales of the sample firms vary between 215 and 34,138 Million Baht. The mean value of market share is 0.04. Data regarding debt financing demonstrate that the sample firms include both unleveraged firms and highly leveraged firms. On average, the ratio of long-term debt to total assets is 0.14 and the ratio of long-term debt to total liabilities is 0.23.[12]

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[12] The maximum value of leverage ratio is more than one in some firms because of their negative equity value.

Table 4.3: Summary statistics of the full sample

This table reports summary statistics of total sample firms, including 1,893 firm-year observations between 1998 and 2007. The unit of financial variables is Million Baht, except variables measured by ratios.

Variable	Mean	Median	Standard Deviation	Minimum	Maximum
Ln(total assets)	8.08	7.87	1.32	6.20	10.84
Total assets	8,241.14	2,619.30	13,171.05	492.95	51,214.38
Total sales	5,409.60	2,159.17	8,310.80	215.10	34,138.12
Market share	0.04	0.02	0.07	0.00	0.61
Long-term debt	1,718.39	123.69	3,724.22	0.00	14,721.51
Total liabilities	4,895.57	1,206.18	8,627.01	80.90	33,705.90
LTD/Total assets	0.14	0.06	0.20	0.00	3.57
LTD/Total liabilities	0.23	0.14	0.25	0.00	1.41
Capital expenditure	348.11	81.25	643.23	2.25	2,606.30
Capex/Total assets	0.05	0.03	0.07	0.00	0.89
Total PPE/Total assets	0.45	0.45	0.24	0.01	0.99
Earning before tax and interest	591.45	169.20	1,043.27	-216.62	4,013.14
ROA	0.08	0.08	0.09	-0.44	1.04
ROE	0.20	0.16	1.16	-1.96	30.19
Industry adjusted ROA	-0.00	-0.00	0.09	-0.54	0.92
Industry adjusted ROE	0.00	-0.00	1.12	-2.10	28.61
Total sales/Total asset	0.93	0.78	0.69	0.00	5.86
Total sales/Total PPE	3.52	1.84	7.31	0.06	239.16
Interest expense	206.32	37.78	400.55	0.00	1,536.90
Coverage ratio	1,773	5	6,749	-1,425	28,911

In addition, some firms have little capital spending, while others have high capital investments. The capital spending of the sample firms varies between 2 and 2,606 Million Baht. The performance of the sample firms is relatively varied; however, the mean value of return on assets and return on equity is 8% and 20% respectively. The efficiency of the sample firms is relatively good. The mean value of total asset turnover ratio and fixed asset turnover ratio is 0.93 and 3.52 respectively. The interest expense of sample firms is in a wide range between 0 and 1,536 Million Baht. The median value of coverage ratio is 5, although the coverage ratio is largely varied.

In order to describe the data in each political period, the full sample of firms is divided into three groups, by political situation. The summary statistics for 521 firm-year observations in the pre-election (1998-2000), 745 firm-year observations in the PM appointment (2001-2004), and 627 firm-year observations in the decline-coup (2005-2007) periods are reported for additional information in Appendix 4.3.

4.6.2 Characteristic differences between connected and non-connected firms

In order to investigate whether there are any systematic differences between firms with and without political connections, the sample firms are divided into two groups, those with and without political connections. The differences in firm characteristics between firms with and without connections are investigated in the pre-election, PM appointment and decline-coup periods. The t statistics are used to test the equality of mean values between connected and non-connected firms. The non-parametric Mann Whitney test, is also used to test the equality of median values between connected and non-connected firms. The significance levels are reported at 1%, 5% and 10%.

Panel A of Table 4.4 reports mean values of financial variables in connected firms and non-connected firms in three political periods. The difference between connected and non-connected firms is examined by t statistics. Based on an aggregate data, politically-connected firms are significantly larger than non-connected firms at the 1% level in terms of total assets and natural logarithm of total assets in all three periods. In addition, the total sales of connected firms are significantly higher than those of non-connected firms at the 1% level in all three periods. The market share of connected firms is larger than that of non-connected firms at the significance level of 10% only in the period of Prime Minister Appointment. The findings imply that connections with the government possibly send a credible signal to customers and investors that firms are considered privileged. Consequently, the firms may be able to acquire a larger market share.

In addition, long-term debt and total liabilities of connected firms are significantly higher than those of non-connected firms in all three periods. The results show that the ratio of long-term debt to total liabilities of connected firms is significantly higher than that of non-connected firms in the PM appointment and the decline-coup periods at the level of 5% and 10% respectively. The ratio of long-term debt to total assets of connected firms is significantly higher than that of non-connected firms at the 10% level only in the decline-coup period. Connections with

the government seem to provide firms with an easy access to external funds in the PM appointment period and this benefit possibly continues in the decline-coup period.

The results show that connected firms have higher investment spending than non-connected firms in all three periods at the significance level of 1%. In the appointment period of Thaksin as Prime Minister, the ratio of capital expenditure to total assets and the fixed asset ratio of connected firms are significantly less than those of non-connected firms. The characteristic difference in these investment ratios between connected and non-connected firms remains similar in the decline-coup period. Connected firms tend to invest less than non-connected firms. It is possible that connected firms gain business opportunity from the government in terms of concessions, which may give them higher benefits for a long period, it may not be necessary for them to increase their investment.

It is interesting that the return on equity of connected firms is significantly higher than that of non-connected firms only in the appointment period. When firms appear to be connected with the government, they seem to perform better than firms without connections. In addition, the efficiency of connected firms, measured by the fixed asset turnover ratio, is significantly higher than that of non-connected firms at the significance level of 5% and 1% only in the pre-election and decline-coup periods. However, the total asset turnover ratio of connected firms is marginally lower than that of non-connected firms at the 10% significance level in the pre-election period. When firms are connected with the government, the firm efficiency seems to be less important for them. I also find that the interest payment ability of connected and non-connected firms is not different in all three periods.

In addition, I use the Mann-Whitney test for the equality of median values between the two groups in Panel B of Table 4.4. Using the Mann-Whitney test, the findings confirm that the differences in firm characteristics between connected firms and non-connected firms are significant, similar to the results based on the t statistics. However, I find that the difference in market share between connected and non-connected firms is significant in all three periods. It is possible that firms that are connected with the government in the PM appointment period are already competitive

and their dominance remains after the loss of connections. In addition, the findings show that the ratio of long-term debt to total assets of connected firms is significantly higher than that of non-connected firms in the PM appointment period, confirming that political connections may bring about an easy access to external financing. The findings about investment policy are similar based on the Mann-Whitney test. However, I find that profitability of connected firms and non-connected firms are not different in all three periods. Using the median value of coverage ratio, the results show that connected firms have lower coverage ratio than non-connected firms at the significance level of 5%.

In conclusion, these findings show the difference between firms with and without connections based on an aggregate data. Connected firms are normally larger in terms of size. When firms are connected with the government in the PM appointment period, they seem to receive higher benefits from such connections in terms of market share and debt financing. However, it is possible that connected firms are entrenched, their investment, measured by the ratio of capital expenditure to total assets, is significantly lower after they gain connections with the government. The firm efficiency, measured by the fixed asset turnover ratio, appears to be important only when the firms are not connected with the government. Further investigation is needed to answer the supposition about the benefits of political connections in terms of firm performance, market coverage and debt financing in Thailand.

Table 4.4: The characteristics of firms with and without political connections

This table reports the difference in firm characteristics between connected firms and non-connected firms in three different political periods (pre-election, PM appointment and decline-coup periods). The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported.

Panel A: The mean values of variables are presented for each group of firms. The t statistics are used to examine the significance of differences in mean value of each variable between non-connected firms and connected firms. The unit of financial variables is Million Baht, except variables measured by ratios.

Variables	Pre-Election			PM appointment			Decline-Coup		
	Non-connected	Connected		Non-connected	Connected		Non-connected	Connected	
	mean	mean		mean	mean		mean	mean	
Size									
Total assets	6,405.450	16,209.110	***	6,737.655	15,202.030	***	8,072.179	16,750.260	***
Ln(total assets)	7.842	8.853	***	7.870	8.859	***	8.156	8.963	***
Market coverage									
Total sales	3,512.760	7,134.373	***	4,721.987	9,613.665	***	5,949.718	11,513.120	***
Market share	0.044	0.057		0.041	0.056	*	0.037	0.049	
Debt financing									
Long-term debt	1,405.918	3,913.445	***	1,348.640	4,153.265	***	1,441.278	3,527.267	***
Total liabilities	4,248.963	10,728.150	***	3,909.520	9,327.808	***	4,394.450	9,615.384	***
LTD/Total assets	0.150	0.179		0.150	0.189		0.102	0.131	*
LTD/Total liabilities	0.234	0.251		0.240	0.307	**	0.199	0.254	*
Investment									
Capital expenditure	191.109	417.908	***	308.367	675.756	***	396.474	774.103	***
Capex/Total assets	0.036	0.029		0.062	0.039	***	0.060	0.045	**
Total PPE/Total assets	0.446	0.335	***	0.542	0.443	***	0.391	0.337	**
Profitability									
Earning before tax and interest	336.193	779.883	***	555.093	1,097.030	***	650.029	1,156.988	***
ROA	0.057	0.046		0.090	0.086		0.080	0.066	
ROE	0.256	0.462		0.186	0.319	**	0.143	0.113	
Industry adjusted ROA	0.001	-0.005		0.001	-0.004		0.002	-0.014	
Industry adjusted ROE	-0.011	0.075		-0.009	0.057		0.004	-0.032	
Efficiency									
Total sales/Total asset	0.826	0.672	*	0.960	0.868		1.016	0.975	
Total sales/Total PPE	2.699	3.888	**	2.619	3.160		4.702	7.484	***
Interest payment ability									
Interest expense	250.392	570.402	***	141.903	390.458	***	143.435	374.003	***
Coverage ratio	461.002	668.936		1,874.091	2,948.549		2,550.426	2,545.355	
Total observations	452	69		140	22		168	26	

Panel B: The median values of variables are presented for each group of firms. The Mann-Whitney test is used to examine the significance of differences in median value of each variable between non-connected firms and connected firms. The unit of financial variables is Million Baht, except variables measured by ratios.

Variables	Pre-Election			PM appointment			Decline-Coup		
	Non-connected median	Connected median		Non-connected median	Connected median		Non-connected median	Connected median	
Size									
Total assets	1,956.380	8,737.100	***	2,059.450	7,965.405	***	2,990.100	11,226.900	***
Ln(total assets)	7.579	9.075	***	7.630	8.983	***	8.003	9.319	***
Market coverage									
Total sales	1,289.680	3,926.320	***	1,853.400	5,588.110	***	2,725.500	6,714.850	***
Market share	0.015	0.034	***	0.015	0.033	***	0.016	0.026	***
Debt financing									
Long-term debt	118.575	501.510	***	112.520	761.670	***	104.100	347.100	**
Total liabilities	1,091.500	6,304.650	***	900.710	4,861.965	***	1,260.100	3,668.600	***
LTD/Total assets	0.082	0.098		0.061	0.195	**	0.048	0.084	
LTD/Total liabilities	0.146	0.193		0.138	0.367		0.113	0.182	
Investment									
Capital expenditure	46.955	99.120	***	82.100	135.250	***	100.700	250.150	***
Capex/Total assets	0.022	0.020		0.040	0.026	**	0.040	0.038	
Total PPE/Total assets	0.436	0.321	***	0.542	0.425	***	0.374	0.283	**
Profitability									
Earning before tax and interest	61.040	138.360	*	183.400	556.335	***	217.300	539.550	***
ROA	0.048	0.027		0.085	0.080		0.078	0.075	
ROE	0.104	0.111		0.176	0.182		0.165	0.151	
Industry adjusted ROA	-0.005	-0.011		-0.003	-0.015		-0.002	-0.012	
Industry adjusted ROE	-0.040	-0.093		-0.003	-0.009		0.022	0.005	
Efficiency									
Total sales/Total assets	0.681	0.462	**	0.840	0.746		0.845	0.667	*
Total sales/Total PPE	1.618	2.723	***	1.572	2.006		2.365	2.551	
Interest payment ability									
Interest expense	74.375	415.100	***	20.950	63.150	***	30.700	78.950	***
Coverage ratio	1.276	1.186		7.539	4.702	**	6.432	4.950	
Total observations	452	69		140	22		168	26	

4.7 Empirical results

Main research questions are examined by the methodology and specifications as previously described in Section 4.5. The impact of political connections is investigated in three different political periods (1998-2000, 2001-2004 and 2005-2007). The impact of connections on firm performance, market coverage and debt financing are examined to show the benefits of political connections. In addition, the Thai political revolution appears to demonstrate the loss of connections and an investigation over that period likely support the significance of connections in Thailand.

4.7.1 Impact of political revolution on firm performance

The regression results in Panel A, Table 4.5 show the impact of political connections on firm performance. I find that the relationship between the connection dummy and the industry adjusted return on assets is not significant. The coefficient of the interactive term between the connection dummy and the period dummy is also not related to profitability after controlling for firm characteristics. In the PM appointment period, the presence of political connections does not affect on accounting performance of firms that are closely connected to the government. The industry adjusted return on assets of this group of firms is not different from firms that never have connections with the government in both the pre-election and decline-coup periods. The results do not support the hypothesis H1(1.1).[13]

Nevertheless, the results in Panel B, Table 4.5 show that the coefficient of the interactive term between the connection dummy and the year 2007 dummy is negatively significant at the 5% significance level. As a result of the coup event, the accounting performance of firms that lose connections with the government (in other

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[13] For the robustness check, I use different proxies for leverage ratio and accounting performance and the results are similar. I also exclude the fixed asset ratio from the specification, the results still remain.

words, firms that are connected with the government in the PM appointment period) is significantly lower than that of non-connected firms in 2007. In addition, I find that size and leverage ratio of firms are determinants of accounting performance in both Panel A and B of Table 4.5. Firm size is positively related to accounting performance at the significance level of 5%. The leverage ratio is negatively related to accounting performance at the 1% significance level.

Table 4.5: Impact of political connections on firm performance

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

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

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

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

Table 4.6 reports the Difference in Difference estimates on firm performance. In Panel A of Table 4.6, I find that the difference in accounting performance between connected and non-connected firms is not significant after the gain of connections [(1)-(2)] and after the loss of connections [(2)-(3)]. The results reject the hypothesis H1(2.1). However, Panel B of Table 4.6 shows that there is the difference between the connection differentials at the significance level of 10%. The industry adjusted return on assets of firms that were connected with the government is lower than that of non-connected firms (5.06 percentage points) after the coup event (in 2007). The accounting performance of connected firms significantly decreases for 4.69% between the rising year (2004) and after coup (2007). The difference in differences estimates

show that connected firms perform poorer than non-connected firms for 5.32% as a result of the loss of connections.

Table 4.6: Difference-in-differences estimates on firm performance

Panel A: This table reports the difference-in-differences estimates on firm performance, which is the industry adjusted return on assets. Firms are classified into two groups; connected and non-connected firms. Pre-Election is a period of 1998-2000. Appointment is a period of 2001-2004. Decline-coup is a period of 2005-2007. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

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

Panel B: This table reports the difference-in-differences estimates on firm performance, which is the industry adjusted return on assets. Firms are classified into two groups; connected and non-connected firms. After-coup is the year of 2007. Rising year is the year of 2004. Election year is the year of 2001. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

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

Furthermore, I investigate the impact of political connections on market-based performance, using market-adjusted cumulative abnormal returns (CARs). Table 4.7 reports that, in the year of 2001, the coefficient of connection dummy is negatively related to CARs at the significance level of 10%. The CARs over the year of 2001 of connected firms are significantly less than those of non-connected firms. In the election year, firms that gain connections with the government perform poorer than

4.7.2 Impact of political revolution on market coverage

The regression results in Panel A, Table 4.8 show the impact of political connections on market share. I find that the relationship between the connection dummy and market share is positively significant at the 10% significance level. The market share of firms that are defined as connected firms in the PM appointment period is higher than that of non-connected firms from 1998 to 2007. The results imply that these connected firms could sustain their leading market positions, compared to other firms, from the pre-election period to the decline-coup period.

Table 4.8: Impact of political connections on market share

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

Dependent variable: Market share	(1)	(2)	(3)
Connection dummy	0.0215 *	0.0206 *	0.0218*
	(0.053)	(0.059)	(0.076)
Pre-Election dummy	0.0056		
	(0.176)		
Appointment dummy		-0.0015	
		(0.381)	
Decline-coup dummy			-0.0033
			(0.226)
Connection x Pre-Election	-0.0008		
	(0.925)		
Connection x Appointment		0.0020	
		(0.625)	
Connection x Decline-coup			-0.0017
			(0.779)
ROA	0.0455 **	0.0426 **	0.0419**
	(0.019)	(0.0300)	(0.034)
LTD/Total assets	0.0237 *	0.0244 *	0.0232*
	(0.084)	(0.080)	(0.096)
Constant	0.3279 ***	0.3304 ***	0.3308***
	(0.001)	(0.000)	(0.000)
Observations	1,893	1,893	1,893
Adjusted R^2	0.3754	0.3744	0.3748

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

Dependent variable: Market share	(1)	(2)	(3)
Connection dummy	0.0215*	0.0214*	0.0210*
	(0.062)	(0.060)	(0.057)
Year2007 dummy	-0.0009		
	(0.709)		
Year2004 dummy		-0.0013	
		(0.404)	
Year2001 dummy			0.0041*
			(0.081)
Connection x Year2007	-0.0012		
Connection x Year2004		-0.0002	
		(0.964)	
Connection x Year2001			0.0040
			(0.510)
ROA	0.0418**	0.0421**	0.0417**
	(0.851)	(0.033)	(0.035)
LTD/Total assets	0.0241*	0.0242*	0.0236*
	(0.084)	(0.082)	(0.091)
Constant	0.3299***	0.3299***	0.3294***
	(0.000)	(0.000)	(0.000)
Observations	1,893	1,893	1,893
Adjusted R^2	0.3743	0.3743	0.3746

However, the coefficient of the interactive term between the connection dummy and the appointment dummy is not related to market share after controlling for firm characteristics. The results do not support the expectation that connected firms may have higher market share in the PM appointment period as a result of benefits obtained from the government. Thus, the results do not support the hypothesis H1(1.2). I also find that the market share of this group of firms is not different from non-connected firms in both the pre-election and decline-coup periods.

I also find that firm characteristics are significantly related to market share. The return on assets and the leverage ratio are positively significant to market share at the significance level of 5% and 10%, respectively. When the period dummy is replaced

by the year dummy, representing the election year, rising year and after-coup year, the results in Panel B, Table 4.8 are similar to previous findings in Panel A of the same table.[14]

Table 4.9 reports the Difference in Difference estimates on market share. In Panel A of Table 4.9, I find that there is no difference between the connection differentials. The difference in market share between connected and non-connected firms is not significant after the gain of connections [(1)-(2)] and after the loss of connections [(2)-(3)]. The results reject the hypothesis H1(2.2). The findings are similar in Panel B of Table 4.9. However, in Panel A of Table 4.9, I find that the market share of non-connected firms significantly decreases from the appointment period to the decline-coup period at the significance level of 5%. In Panel B, Table 4.9, the results show that non-connected firms significantly lose market share in 2004, compared to the election year of 2001, at the significance level of 1%. The results infer that the competitive position of non-connected firms continually declines over a period of 1998-2007. The findings are consistent with the results in Table 4.8 that connected firms have higher market share than other firms.

Table 4.9: Difference-in-differences estimates on market share

Panel A: This table reports the difference-in-differences estimates on market share, which is the ratio of a firm's total sales to total sales of all firms in the same industry. Firms are classified into two groups; connected and non-connected firms. Pre-Election is a period of 1998-2000. Appointment is a period of 2001-2004. Decline-coup is a period of 2005-2007. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

		Connected (C)	**Non-connected** (N)	Difference (C – N)
Pre-Election (1998-2000)	(1)	0.0575	0.0443	0.0132
				(0.340)
Appointment (2001-2004)	(2)	0.0556	0.0410	0.0146
				(0.242)
Decline-Coup (2005-2007)	(3)	0.0487	0.0368	0.0119
				(0.258)
Difference	(1)-(2)	0.0019	0.0033	-0.0015
		(0.777)	(0.385)	(0.844)
Difference	(2)-(3)	0.0069	0.0042	0.0027
		(0.150)	(0.026)**	(0.582)

[14] For the robustness check, I use different proxies for profitability and leverage ratio. I find similar results in both Panel A and B in Table 4.8.

Panel B: This table reports the difference-in-differences estimates on market share, which is the ratio of a firm's total sales to total sales of all firms in the same industry. Firms are classified into two groups; connected and non-connected firms. After-coup is the year of 2007. Rising year is the year of 2004. Election year is the year of 2001. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

		Connected (C)	**Non-connected** (N)	Difference (C-N)
After coup (Y2007)	(1)	0.0475	0.0379	0.0096 (0.409)
Rising year (Y2004)	(2)	0.0532	0.0394	0.0139 (0.240)
Election year (Y2001)	(3)	0.0635	0.0472	0.0163 (0.290)
Difference	(1)-(2)	-0.0057 (0.424)	-0.0015 (0.484)	-0.0043 (0.555)
Difference	(2)-(3)	-0.0103 (0.163)	-0.0078 (0.008)***	-0.0025 (0.744)

4.7.3 Impact of political revolution on debt financing

The regression results in Panel A, Table 4.10 show the impact of political connections on debt financing. I find that the relationship between the connection dummy and the leverage ratio is not significant. The coefficient of the interactive term between the connection dummy and the appointment dummy is also not significant. The results, thus, reject the alternative hypothesis H1 (1.3). The leverage ratio of firms with political connections is not higher, compared to non-connected firms, in the appointment period (2001-2004).

In addition, the findings show that the coefficient of the interactive term between the connection dummy and the period dummy is not significant in the pre-election and decline-coup periods. The results imply that the presence of connections does not affect debt financing of firms with political connections in all sample periods. I also find that the relationship between firm characteristics; i.e. firm size and fixed asset ratio, and the leverage ratio is positively significant at the significance level of 1%. The return on assets is negatively related to the leverage ratio at the 5% significance

level or better. I also find similar results in Panel B of Table 4.10 when I use the year dummy to indicate the election year, rising year and after-coup year.[15]

Table 4.10: Impact of political connections on debt financing

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

Dependent variable: LTD/Total assets	(1)	(2)	(3)
Connection dummy	0.0079	0.0009	0.0038
	(0.753)	(0.972)	(0.902)
Pre-Election dummy	0.0262**		
	(0.031)		
Appointment dummy		0.0210	
		(0.182)	
Decline-coup dummy			-0.0459***
			(0.000)
Connection x Pre-Election	-0.0074		
	(0.812)		
Connection x Appointment		0.0098	
		(0.590)	
Connection x Decline-coup.			-0.0055
			(0.839)
Ln(total assets)	0.0378***	0.0380***	0.0389***
	(0.000)	(0.000)	(0.000)
Total PPE/Total assets	0.1573***	0.1424***	0.1353***
	(0.000)	(0.000)	(0.000)
ROA	-0.2720**	-0.3037***	-0.2873***
	(0.011)	(0.005)	(0.004)
Constant	-0.2714***	-0.2660***	-0.2489***
	(0.000)	(0.000)	(0.000)
Observations	1,893	1,893	1,893
Adjusted R^2	0.1288	0.1285	0.1367

[15] For the robustness check, I use different proxies for profitability and leverage ratio. I find similar results in both Panel A and B in Table 4.10.

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

Dependent variable: LTD/Total assets	(1)	(2)	(3)
Connection dummy	0.0063	0.0062	0.0076
	(0.819)	(0.816)	(0.763)
Year2007 dummy	-0.0483***		
	(0.000)		
Year2004 dummy		-0.0014	
		(0.881)	
Year2001 dummy			0.0578**
			(0.027)
Connection x Year2007	-0.0165		
	(0.505)		
Connection x Year2004		0.0018	
		(0.930)	
Connection x Year2001			-0.0313
			(0.395)
Ln(total assets)	0.0382***	0.0375***	0.0379***
	(0.000)	(0.000)	(0.000)
Total PPE/Total assets	0.1479***	0.1541***	0.1420***
	(0.000)	(0.000)	(0.000)
ROA	-0.2917***	-0.2890***	-0.2903***
	(0.004)	(0.005)	(0.005)
Constant	-0.2567***	-0.2595***	-0.2634***
	(0.000)	(0.000)	(0.000)
Observations	1,893	1,893	1,893
Adjusted R^2	0.1316	0.1258	0.1312

In Table 4.11, I investigate the difference in differences on debt financing. In Panel A and B of Table 4.11, I find that there is no difference between the connection differentials. The difference in leverage ratio between connected and non-connected firms is not significant after the gain of connections [(1)-(2)] and after the loss of connections [(2)-(3)]. The results reject the hypothesis H1(2.3). The debt financing differential is independent of the presence of political connections. The findings are consistent with the results of Bunkanwanich and Wiwattanakantang (2008) that political connections do not affect firms' financing policies.

Table 4.11: Difference-in-differences estimates on debt financing

Panel A: This table reports the difference-in-differences estimates on debt financing, which is the ratio of long-term debt to total assets. Firms are classified into two groups; connected and non-connected firms. Pre-Election is a period of 1998-2000. Appointment is a period of 2001-2004. Decline-coup is a period of 2005-2007. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

		Connected (C)	**Non-connected** (N)	Difference (C – N)
Pre-Election (1998-2000)	(1)	0.1790	0.1505	0.0285 (0.491)
Appointment (2001-2004)	(2)	0.1886	0.1503	0.0383 (0.288)
Decline-Coup (2005-2007)	(3)	0.1305	0.1022	0.0283 (0.291)
Difference	(1)-(2)	-0.0096 (0.686)	0.0002 (0.990)	-0.0097 (0.717)
Difference	(2)-(3)	0.0581 (0.007)	0.0481 (0.003)	0.0100 (0.691)

Panel B: This table reports the difference-in-differences estimates on debt financing, which is the ratio of long-term debt to total assets. Firms are classified into two groups; connected and non-connected firms. After-coup is the year of 2007. Rising year is the year of 2004. Election year is the year of 2001. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

		Connected (C)	**Non-connected** (N)	Difference (C-N)
After coup (Y2007)	(1)	0.1184	0.0902	0.0282 (0.288)
Rising year (Y2004)	(2)	0.1565	0.1204	0.0361 (0.272)
Election year (Y2001)	(3)	0.2013	0.1994	0.0020 (0.970)
Difference	(1)-(2)	-0.0381 (0.117)	-0.0302 (0.008)	-0.0080 (0.756)
Difference	(2)-(3)	-0.0448 (0.222)	-0.0790 (0.007)	0.0341 (0.454)

4.8 Summary and conclustion

This chapter examines the differences between firms with and without political connections in three different political periods. The results show that firms with political connections are significantly different from firms without political connections in various aspects of each political period such as size, market share, proportion of debt financing, capital expenditure and profitability. This chapter also

investigates the impact of political connections on firm performance, market share and debt financing and the difference in firm performance, market share and debt financing between connected and non-connected firms after the gain and loss of connections.

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

In addition, the findings show that, firms that are defined as connected firms in the appointment period have higher market share than non-connected firms from 1998 to 2007. The results are consistent with the findings of the difference in differences estimates of market share. The market share of non-connected firms is different between each sample period. From the election year of 2001 to the rising year of 2004, the market share of non-connected firms significantly decreases. The market share of non-connected firms is significantly lower in the decline-coup period, compared to the appointment period.

Interestingly, I find that the presence of connections dose not affect the leverage ratio. The leverage ratio of firms with political connections is not higher than that of non-connected firms in the PM appointment period. The results are consistent with the findings of difference in differences on debt financing. The leverage ratio between connection differentials is not different after the firms gain connections or after the firms lose connections with the government.

The overall results support that the presence of political connections is important for firms in Thailand. The performance of firms that are connected with the Thaksin's government significantly decreases after the event of the military coup. The market share of these firms is always higher than non-connected firms. It could be the case that these family firms have been influential in the market and having connections with the government provides them benefits to sustain their market positions over a long period. Such benefits also continue after the loss of connections. However, it is interesting to further investigate only Thaksin Shinawatra's family firms that are closely-connected with the government to find out whether their performance, market share and leverage ratio are different from other firms in the same industry in the next chapter.

CHAPTER 5: THE ROLE OF CONNECTIONS IN THE FORMER PRIME MINISTER FAMILY FIRMS

5.1 Introduction

This chapter investigates the presence of connections in Thailand using firms in the telecommunications industry. It provides a detailed analysis of how a family business group forms connections with the government. The investigation of the Shinawatra family's firms in Thailand represents an interesting setting of family firms that were owned by the leader of the country.[16] This family business group had been closely connected to the government since 1994 when a family member, Thaksin Shinawatra, entered the field of politics and became the Prime Minister in 2001. Thus, the Shinawatra family business group is an interesting case to examine the role and value of connections.

This study provides an insight into how this particular family business group had expanded along with the development of its political connections. The effects of connections will be explored by making a comparison of the firm performance, market share and debt financing between the group firms and their peers in the telecommunications industry from 1995 to 2007. Whether political connections are valuable is also investigated around major political events. An investigation into how connections were established and developed over a long period will be conducted, and the detailed description of the case study will also complement the large-sample analyses presented in Chapter 4 and previous research.

The rest of this chapter will be structured as follows. Section 5.2 reviews legal restriction and loopholes. Section 5.3 examines the role of political connections in

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[16] In other countries (e.g. Indonesia, the Philippines and Italy), similar setting is also found.

developing the Shinawatra business group. Section 5.4 investigates the impact of political connections on the group's performance, market share and debt financing. The value of connections is also examined around major political events. Finally, Section 5.5 concludes the chapter.

5.2 Legal restrictions and loopholes

In Thailand, corruption has become widespread as a result of collusion between politicians, state officials and businessmen, and is facilitated through loopholes in the legislation. It is clear that the overthrow of Thaksin Shinawatra's the government in September 2006 was mainly caused by corruption. The main authority for investigating the corruption of State officials and politicians in Thailand is the office of the National Counter Corruption Commission (NCCC). Its main responsibilities are to declare and inspect the assets and liabilities of State officials and politicians and to prevent and suppress corruption.

The new constitution of Thailand passed in 1997 amended the regulations to prohibit the involvement of politicians in business, as shown in Appendix 3.1. The constitution imposes restrictions on members of parliament. Article (2) of Section 110 of the 1997 Thai Constitution clearly asserts that members of parliament must not be involved in any activities related to concessions and contracts from the State, State agencies and State enterprises.

The restrictions on the involvement of ministers in business are strictly enforced according to the constitution. To reduce potential conflicts of interests, the Thai Constitution prohibits the involvement of ministers in business. Therefore, after the appointment of ministers, they must relinquish any ownership or directorship within the corporate sector. In some cases, their shareholdings may be retained, but ministers must declare their assets to the NCCC.

Although the 1997 Thai Constitution and the Act on Counter Corruption (1999) seek to prevent conflicts of interests and the corruption of politicians, there are loopholes in the current legislation that allow politicians to facilitate the preferential treatment of related individuals and firms. Firstly, the constitution fails to impose any restriction on the ownership and directorship of members of parliament, as it does for ministers. Secondly, the shareholdings of ministers are prohibited according to the constitution, but politicians may transfer their equity ownership to their spouses, sons, daughters or relatives to avoid the legal restrictions. As a result, conflicts of interests and corruption still remain.

The practice of ownership transfer has become one of the major concerns for the NCCC. In practice, ministers and politicians are required to declare their assets both before and after their official political appointments.[17] One possible reason why the ownership of the Shin Corporation was restructured in 2001 is that Thaksin found loopholes in the law that enabled him to transfer his ownership of his family business group to his son and daughter. When Thaksin entered politics in 2001, Section 209 of the 1997 Thai Constitution disallowed the involvement of Thaksin as a partner or a shareholder in business. Nevertheless, Thaksin and his wife, Potjaman Damapong, retained direct ownership of the Shin Corporation in their own names until 2000, which was transferred to their children in 2001. Thaksin's son and second eldest daughter were ranked the wealthiest shareholders in Thailand following the transfer of the shareholdings of Thaksin in the Shin Corporation (Prachachart, 2003).

5.3 Political connections and group expansion

Because the telecommunications industry remains regulated, obtaining a government concession is crucial to telecommunications firms' growth and market power. Lobbying is commonplace and accepted as a customary practice in this

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[17] Chantik (2004) provides evidence from his experience as the secretary of the NCCC for the charge that Thaksin hid assets following his appointment as Prime Minister in 2001.

industry (Baker and Phongpaichit, 2004). Thus, being connected to the ministers or politicians in power is seen as a necessary means for obtaining inside information and preferential treatment. Evidence shows that almost all telecommunications firms switched their donations to the political party that was elected to govern in 2001 to be able to secure some benefits from the current government (Poapongsakorn, 2004).

Table 5.1 shows how the Shinawatra family developed its connections with the government in order to expand its family business between 1983 and 2006. It gives details of events, such as the dates on which the group obtained concessions and privileges from the government and entered joint ventures. The Shinawatra family business group had been developed and sustained by means of kinship and social ties. Table 5.1 shows that Thaksin initially established the Shin Corporation as a computer business in 1983 to supply computers to government offices, including the Police Department, where his father-in-law was the Deputy Police Chief General (Pathmanand, 1998). Subsequently, Thaksin expanded his family business into the field of high technology, following the government's policy of meeting the growing urban demand in the 1980s.

Thaksin's major businesses had continuously been awarded government concessions and had secured a strong competitive position in the telecommunications industry. Table 5.1 provides details of the concessions and joint ventures with the government that his business group obtained. In 1985, he established the cable TV company (International Broadcasting Corporations or IBC) that was granted a 20-year concession. Shinawatra DataCom (SDC) was also established and was granted a 10-year concession to operate a data communication network in 1989. In the following year, Advanced Info Service (AIS) was granted a 20-year concession to operate 900 MHz mobile phone services. Shinawatra Paging (SPG) was established and was granted a 15-year concession to operate a nationwide paging service in 1990. In 1991, Shinawatra Directories (SDY) was set up and obtained a concession to produce white and yellow pages telephone directories nationwide. Shinawatra Satellite (SATTEL) was established in the same year and was granted a 30-year concession to operate Thailand's first commercial satellite.

Table 5.1: The development of the political connections of the Shinawatra group

This table shows events about the establishment and expansion of the Shinawatra business group between 1983 and 2006. During this period, Thaksin Shinawatra developed political connections to facilitate the expansion of his family business group. Events relating to these political connections, such as the year when the group obtained the concession and entered into joint ventures with the government, and when Thaksin enters into politics are provided in this table.

Year	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Listed firms*																								
SHIN	Est.							Listed																
ADVANC				Est.					Listed															
SATTEL									Est.			Listed												
ITV																		Acq.		Listed				
CS Loxinfo (formerly called CSC)												Est.										Listed		
UBC (formerly called IBC)			Est.							Listed							Sold							
Non-listed firms**																								
ADC (formerly called SDC)						Est.														Sold				
APG (formerly called SPG)							Est.																	
TMC (formerly called SDY)									Est.															
DPC																		Acq.						
AIRASIA																					Est.			
Capital OK																					Est.			
Privileges, concessions and JVs with the government																								
Events	1		2			3		4 5	6 7			8		9		10		11 12		13	14	15 16		
Political connections																								
Events												1)	2) 3)		4)	5)			6)				7)	8) 9)

Note: *These listed firms are owned by the Shinawatra family and its related family (Damapong) and are controlled by the Shin Corporation. ** Non-listed companies include only firms that are under the Shin Corporation and their operations obviously rely on connections with the government. Est. and Acq. stand for an establishment and an acquisition, respectively.

Events: Concessions and JVs with the government

1 Shinawatra Computer Co. Ltd (changed to Shin Corporation Public Co., Ltd. in 2001) became the computer supplier to government offices and the Police department at the beginning of the 1980s.
2 International Broadcasting Corporations Co., Ltd. (IBC) operated the first cable TV under a 20-year concession granted by the Mass Communications Organisation of Thailand (MCOT).
3 Shinawatra DataCom Co., Ltd. (SDC) was granted by the Telephone Organisation of Thailand (TOT) a 10-year concession to operate a data communication network.
4 Advanced Info Service Co., Ltd. (AIS) was granted a 20-year concession to offer a 900 MHz mobile telephone services by the Telephone Organisation of Thailand (TOT).
5 Shinawatra Paging Co., Ltd. (SPG) was granted by TOT a 15-year concession to operate a nationwide paging service, Phonelink.
6 Shinawatra Directories Co., Ltd. (SDY) took over the concession from AT&T to produce white and yellow pages telephone directories nationwide.
7 Shinawatra Satellite Co., Ltd. (SATTEL) was granted by the Ministry of Transport and Communications (MOTC) a 30-year concession to operate Thailand's first commercial satellite.
8 CS Communications Co., Ltd. (CSC), a joint venture business between SATTEL and the Communications Authority of Thailand (CAT), was established to operate uplink and downlink signals via Thaicom satellites, both domestic and international, and to provide Internet services.
9 AIS was granted by TOT an extension to its concession period from 20 years to 25 years.
10 The Company decreased its investment in SDY by changing the concession agreement to a joint venture agreement with TOT. This decreased the Company's investment in SDY from 100% to 51% of its registered capital.
11 Digital Phone Company Limited (DPC) was granted a 15-Year BTO concession by the Communication Authority of Thailand (CAT) in 1996 to provide mobile phone services in the 1800MHz frequency spectrum. (The Shin Corporation acquired a 45.6% of shareholding in DPC from the SAMART Corporation in February 2000.)
12 Formerly known as "Siam Infotainment Co., Ltd.", ITV was granted a 30-year concession by the Office of the Permanent Secretary to the Prime Minister's Office in 1995 to operate a free-to-air television station in the Ultra High Frequency (UHF) spectrum at 510-790 MHz.
13 APG, a digital paging service provider under the trade name "Phonelink", returned its license to TOT.
14 SATTEL won an eight-year tax holiday worth 16 billion baht ($400 million) for its IPSTAR broadband satellite system from the Board of Investment (BOI).
15 AirAsia, a low-cost airline joint venture business, was granted an eight-year income tax and import duty exemption from BOI.
16 ITV was voted to win its appeal for reducing the concession fee of the 30-year concession to Bt7.8 billion from Bt25.5 billion.

Events - political connections

1) 2 November 1994 - 10 February 1995, Thaksin Shinawatra was appointed Minister of Foreign Affairs in the government of Chuan Leekpai.
2) 28 May 1995, Thaksin became a leader of Palang Dharma party.
3) 20 July 1995 – 14 August 1996, Thaksin was appointed Deputy Prime Minister and head of the Bangkok Traffic Solving Team in the government of Banharn Silapa-archa.
4) 15 August 1997 – 14 November 1997, Thaksin was appointed Deputy Prime Minister in the government of General Chavalit Yongchaiyudh.
5) 14 July 1998, Thaksin registered a new 'Thai Rak Thai' party.
6) 9 February 2001, Thaksin was appointed Prime Minister.
7) 6 February 2005, Thai Rak Thai won the second election and Thaksin secured the Prime Minister appointment.
8) 2 April 2006, Thai Rak Thai won the election against the boycott of other political parties.
9) 19 September 2006, Thaksin's government was overthrown by a military coup.

Sources: Shin Corporation Pcl., The Nation newspaper, Bangkok Biz newspaper, Far East Economic Review, the Stock Exchange of Thailand, Collections in Books: Knowing Thaksin (Roo Than Thaksin, in Thai) I and II, Book: Capitalised Thaksin (Paeng Tuk Sin Pen Thun, in Thai), Thaksin's biography and Pathmanand (1998).

Before Thaksin entered the field of national politics and was appointed Prime Minister in 2001, he developed personal relationships with several powerful politicians in relevant governmental authorities. These links probably helped him to obtain licenses and concessions. Thaksin first obtained a government concession to operate a cable TV business in 1985, when one of his closest friends oversaw the Mass Communications Organisation of Thailand (MCOT) (Baker and Phongpaichit, 2004). In an interview that he gave to 'The Nation' newspaper on 28 March 2001, Thaksin stated that his success in launching the satellite venture was due to his personal relationship with a military politician who administered the telecommunications authority at that time (Baker and Phongpaichit, 2002a; Baker and Phongpaichit, 2004).

The high sensitivity of his businesses to political decisions might induce Thaksin to enter the field of national politics. In Table 5.1, events relating to political connections show that Thaksin took his first political position as the Minister of Foreign Affairs between November 1994 and February 1995 at the invitation of the leader of the Palang Dharma Party (PDP).[18] His political involvement was further strengthened when he became the leader of the PDP in May 1995. He was appointed Deputy Prime Minister in Banharn Silapa-archa's government in July 1995 and in that of General Chavalit Yongchaiyudh in August 1997. Between 1994 and 1997, Thaksin's cabinet position seemed to allow him to influence the government to provide more benefits to his business group. In 1996, AIS was granted an extension of its concession period from 20 to 25 years, although its initial 20-year concession to offer mobile phone services had not yet ended.

In 1998, Thaksin Shinawatra established a new political party called the Thai Rak Thai Party. Thaksin introduced populist policies that were strongly supported by

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[18] Thaksin decided to resign as Minister of Foreign Affairs in 1995 as a result of a debate about the restrictions on the involvement of ministers in business according to Sections 114 and 167 of the 1991 amended Thai Constitution (Wanlaya, 2001). The amended Thai Constitution states that ministers are not allowed to receive any concession from the government. However, Thaksin was not found guilty of breaking the law because the 1991 amended Thai Constitution had never been officially enacted.

the Thai people, partly because the country had just entered into the financial crisis in 1997. His experience of running successful businesses and management style, which was in marked contrast to other political party leaders, seemed to be widely admired by the public (Baker and Phongpaichit, 2001, 2002a). The Thai Rak Thai Party won the election in 2001 with a majority of votes, and Thaksin became the Prime Minister of Thailand.

However, since his appointment to Prime Minister in 2001, Thaksin Shinawatra had been publicly criticised because his government had introduced various policies to secure benefits for his family business group. Thaksin changed the rules of the game in his own favour. In November 2001, the Telecommunications Business Act was announced, which imposed a limit on foreign ownership to a maximum of a 25% shareholding in the telecommunications industry (Baker and Phongpaichit, 2004). This law appeared to increase the barriers to entering the Thai telecommunications industry for foreign investors.

Another new policy that is related to the revenue sharing policy is the policy on excise duty. Under the revenue sharing policy, private telecommunications companies had to share a certain percentage of their revenue with two state agencies that grant concessions: the Communication Authority of Thailand (CAT) and the Telephone Organisation of Thailand (TOT). Because both the CAT and the TOT operate their own telecommunications businesses, they are rivals to the private telecommunications companies (Mongkolporn, 2003). The revenue sharing from the private telecommunications companies was intended to help the state agencies to expand their own telecommunications network (The Nation, 2003).

As a result of the new policy on telecommunications excise tax, the two state agencies lost their revenue, and the decline in revenue has affected their business development and competitiveness. The imposition of excise tax in January 2003 requires mobile phone companies, including the Shinawatra's family businesses, and fixed-line phone companies to pay 10% and 2% excise tax, respectively. Tangkitvanich (2004) argues that the introduction of excise duty that replaced the

revenue sharing policy in the telecommunications industry protects the market power of private operators and reduces the government income.

The events listed in Table 5.1 that occurred between 2003 and 2004 show that the government of Thaksin had changed the rules affecting his family businesses. In November 2003, SATTEL was granted an eight-year tax exemption, worth 16,459 million baht (about 400 million USD), for its IPSTAR satellite system from the Board of Investment (BOI). Crispin (2003) reports that:

> "The tax break raised eyebrows because it represented the first time the state agency, historically charged with attracting foreign investment, had offered such incentives to a Thai-owned company".

The BOI's tax privilege to the SATTEL and its IPSTAR project, which clearly benefits the Shinawatra family business group, raised public concern (Tangkitvanich, 2004a and Poapongsakorn, 2004).

In addition, the government's approval of Air Asia (the Shin Corporation's low cost airline) using the airport and the withdrawal of the government controls on minimum airfares resulted in great benefits for the Shinawatra family's business (Poapongsakorn, 2004). Wongrasmeeduan (2004) reports that Air Asia negotiated with the Airports of Thailand, under the pretext of the government's policies for promoting investment in the Thai airline industry, to be granted a reduced airport and landing fee of 1,600 baht per flight (40 USD per flight), instead of the normal rate at 6,000 baht per flight (150 USD per flight). Pinthong (2004) also notes that Air Asia was awarded by the BOI an eight-year income tax holiday, equivalent to 90.3 million baht (2.25 million USD), and an exemption from import duty for machinery, amounting to 9.7 million baht (241,000 USD) in January 2004.

In February 2004, the government lost tax revenue of 17,000 million baht (423 million USD), following the granting of the reduction in the government concession fee payable by ITV (Poapongsakorn, 2004). In 1995, ITV was granted a 30-year

concession by the Office of the Permanent Secretary to the Prime Minister's Office to operate a television station, with the agreement that ITV would pay a government concession fee of 25.5 billion baht. ITV was acquired by the Shin Corporation in 2000. However, after the takeover by the Shin Corporation, ITV petitioned against its high concession fee and claimed that it paid a far higher concession fee than the other TV stations, resulting in less competitiveness. The arbitration board voted for ITV in 2004 (The Nation, 2004a, b). The arbitration board was publicly criticised for failing to act in the public interest and that ITV should not have won the appeal. The Shin Corporation should have agreed on the contract conditions of ITV and the amount of concession fee that ITV has to pay before taking ITV over. Arguably, ITV would not have won its petition if Thaksin was not Prime Minister at that time.

Although the Thaksin's government had been highly criticised by the public about favoured policies that the government provided to the Thaksin's family firms during his Prime Minister appointment period of 2001-2004, the Thai Rak Thai Party won the second election and Thaksin secured the Prime Minister appointment in February 2005. In January 2006, the government of Thaksin amended the Telecommunications Business Act, which increases a limit on foreign ownership from a maximum of a 25% shareholding to a 49% shareholding. This law appeared to allow the Shinawatra family to sell their family businesses to a foreign investor, Temasek Corporation of Singapore. The amendment of the law was changed just before the share sale of Thaksin's family firms to Temasek group.

However, only one year after the second election, the Prime Minister Thaksin could not stand public outcry, especially over his family firms' share sale to the foreign investor, and thus he had to announce the house dissolution. The third election was held two months later and the Thai Rak Thai Party won the election against the boycott of other political parties. However the declining period of the Thaksin's government came to an end when his government was overthrown by a military coup on 19 September 2006.

To summarise, the development and expansion of the Shinawatra business group demonstrates a reliance on and the importance of connections in the Thai telecommunications industry. The Shinawatra family business group has developed political connections over a long period to secure government concessions to operate in the telecommunications industry. Connections between Thaksin Shinawatra and the politicians or officials date back to the time when he started his first business. Thaksin has developed personal relationships with influential politicians or officials who could offer him business favours. Arguably, he has become a wealthy businessman by securing many concessions and as a result of his connections. Thaksin started his career as a politician in 1994 as a minister and was appointed Deputy Prime Minister under two governments, in 1995 and 1997. In 1998, he set up his own political party and was elected the Thai Prime Minister in 2001. As a result of being the Prime Minister, he had controlled and changed the rules to favour his family's business group.

5.4 Impact of connections on the Shinawatra family firms

The political connections of the Shinawatra family business group had been documented since the first company of the group was established. Connections are likely to have had a significant impact on the group's performance, market position and debt financing. This section examines whether connections have been beneficial to the Shinawatra family firms from 1995 to 2007 and whether connections are valuable to these firms. The performance, market share and debt financing of the Shinawatra family firms will be compared to those of its competitors in the telecommunications industry.

5.4.1 Research questions and hypotheses

Using firms in the telecommunications industry, sample firms are classified into two groups. Firms that are owned by Prime Minister Thaksin Shinawatra's family and related families are defined as PM firms, while the rest of firms in the same industry is

defined as Non-PM firms. Similar to Section 4.3, the research questions and hypotheses are as follows.

Research question 1: Do political connections affect firm performance, market coverage and debt financing?

In the telecommunications industry, firms are sustainable in the competitive environment as a result of government concessions and privileges. Firms that are owned by the family of the country's leader seem to obtain higher benefits, e.g. government contracts and favourable policies, compared to other firms. As a result, firms of the former Prime Minister's family (PM firms) may have better performance than non-PM firms. It is also likely that PM firms may gain competitive advantages as a result of privileges and favourable policies. Thus, market share of PM firms may be higher than that of non-PM firms. In addition, financial institutions may prefer to lend to PM firms because they can rely on trust and the reputation of these firms. It is possible that PM firms may obtain easy access to external financing, compared to non-PM firms. The leverage ratio of PM firms may be higher than those of non-PM firms.

Under the alternative hypotheses, the performance, market share and leverage ratio are expected to be higher for PM firms than for non-PM firms in the appointment period of Thaksin as Prime Minister (2001-2004).

H1 (1.1): The performance is higher for PM firms than for non-PM firms.

H1 (1.2): The market share is higher for PM firms than for non-PM firms.

H1 (1.3): The leverage ratio is higher for PM firms than for non-PM firms.

As a result of the decline of political power of the Thaksin's government, it is possible that advantages PM firms had gained could not be maintained, and it is interesting to investigate whether connections have an impact on performance, market share and leverage ratio in the decline-coup period. In addition, since Thaksin had appointed minister in November 1994, the performance, market coverage and debt financing of Shinawatra family firms may be different from other firms in the Pre-election period. I use the same alternative hypotheses in research question (1) to

examine the impact of political connections on firm performance, market share and leverage ratio in the pre-election (1995-2001) and decline-coup (2005-2007) periods.

Research question 2: Are the performance, market share and leverage ratio different between PM and non-PM firms as a result of the gain and loss of connections?

The Prime Minister appointment of Thaksin Shinawatra in 2001 demonstrates the gain of political connections to family firms of Thaksin. His family firms may have higher performance, market share and debt financing, compared to other firms, after the gain of political connections. As a result of the military coup, it is possible that the performance, market share and debt financing are lower for PM firms than for non-PM firms. Therefore, it is interesting to investigate whether the performance, market share and debt financing of PM firms are different from those of non-PM firms in different periods.

Under the alternative hypotheses, the performance, market share and leverage ratio are higher for PM firms than for non-PM firms after the gain of political connections.

H1 (2.1): The performance is higher in PM firms, compared to non-PM firms, after the gain of political connections.

H1 (2.2): The market share is higher in PM firms, compared to non- PM firms, after the gain of political connections.

H1 (2.3): The leverage ratio is higher in PM firms, compared to non- PM firms, after the gain of political connections.

In addition, I expect that the performance, market share and debt financing are lower for PM firms than for non- PM firms after the loss of connections, using the same hypotheses in research question (2).

Research question 3: Are political connections valuable in Thailand?

As a result of information asymmetry problems, the cost of searching information is high. Connections with the government may provide firms better information in doing businesses in the country. As described in Chapter 3, a majority of Thai firms are owned by families who are afraid of losing firm control and prefer to sustain their family firms. Therefore, the owners of Thai firms may develop connections with the government to obtain business protection and privileges. The existence of political connection is expected to be valuable.

Under the alternative hypothesis, PM firms should have better market performance (stock returns) than non-PM firms if political connections are valuable. I predict that PM firms have higher market-adjusted cumulative abnormal returns, compared to non-PM firms.

H1 (3): Market-adjusted cumulative abnormal stock returns of PM firms are higher than those of non-PM firms.

Given that this study covers the period of 1995-2007, it is interesting to examine market responses to different political events. I use the same alternative hypothesis in research question (3) to investigate the value of political connections during major events. I expect that market-adjusted cumulative abnormal stock returns of Thaksin's family firms are lower than those of non-PM firms because of the loss of connections after the military coup.

5.4.2 Data and methodology

I collect a sample of ten firms, which are active in the telecommunications sector for at least 10 years in the period of 1995–2007 and listed on the Stock Exchange of Thailand. These ten listed firms include three firms belonging to the Shinawatra family and seven competitors. Firms of the Shinawatra family are Shin Corporation Public Company Limited (SHIN), Advanced Info Service Public Company Limited (ADVANC) and Shin Satellite Public Company Limited (SATTEL). The competitors are International Engineering (IEC), Jasmine International (JAS), Samart Corporation

(SAMART), True Corporation (TRUE), TT&T (TT&T), United Communications (UCOM) and Samart Telecoms (SAMTEL). The three listed firms of the Shinawatra family are considered politically-connected firms in the extreme because they are closely connected to the Prime Minister and, as such, are assumed to have the strongest linkage to the government.

The sample periods are classified into 1) Pre-election (1995-2000), 2) Thaksin's Prime Minister Appointment (2001-2004) and 3) Decline-coup (2005-2007). I also separate the pre-election period into 1) Pre-crisis (1995-1996) and 2) Crisis (1997-1998) periods to investigate benefits of connections when Thaksin Shinawatra first entered into Thai politics as minister.

I collect figures from financial statements of firms in the sample between 1995 and 2007. Financial variables used in this chapter are as follows. The natural logarithm of total assets is an indicator for size. Market share is measured by a ratio of a firm's total sales to total sales of all firms in the same industry. Indicators of accounting-based performance include return on assets and returns on equity. The return on assets is a ratio of earnings before interest and tax to total assets. The return on equity is measured by a ratio of earnings before interest and tax to total equity. A proxy of Tobin's Q ratio is measured by the ratio of market value of total assets to book value of total assets (M/B). Leverage ratio is defined by a ratio of long-term debt to total assets and by a ratio of long-term debt to total liabilities. Fixed asset ratio and the ratio of capital expenditure to total assets are measures of a firm's investment. Total asset turnover and fixed asset turnover ratios are measures of a firm's efficiency.

I additionally collect the daily stock return index for each sample firm from Datastream to calculate market-based performance (returns on individual stocks) during the sample period. The daily stock return index of Datastream represents a growth of investment in the total value of a stock holding for a day, assuming that dividends are re-invested to purchase new units of the stock at the closing price end of day. Using the daily return index from Datastream, the total daily returns for individual stocks are calculated as the total returns i.e. capital gain and dividend yield.

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

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

Other sources of information include Setsmart database, Factiva database, local Thai newspapers (such as, Matichon Online, The Nation newspaper, Bangkok Biz newspaper), websites of the government offices and political parties and several books about Thaksin Shinawatra. It is important to note that SAMTEL is listed in 1996 and UCOM is de-listed in 2007, thus the total firm-year observations are 128 observations from 1995 to 2007. The total observations are 59, 40 and 29 in the pre-election, PM appointment and decline-coup periods, respectively.

I use the Pooled Ordinary Least Square (OLS) method with standard errors clustered at the firm level for all specifications. The t-statistics computed using the clustered standard errors are adjusted for heteroscedasticity. All three specifications as in Chapter 4 are used to investigate the impact of political connections on firm performance, market coverage, and debt financing in this chapter. Firms are classified into two groups; PM and Non-PM firms. The PM dummy is a dummy variable that is one if a major shareholder of the firm is from the Shinawatra family, and zero otherwise. Furthermore, Difference in Differences (DID) estimate method is used to examine the difference in firm performance, market share and debt financing between PM and non-PM firms in different political conditions. The differentials between PM and non-PM are investigated in each period, and then the differentials between two periods are examined.

In addition, I will use an event study to investigate the value of connections (Lys and Vincent, 1995). This study will show how stock returns react to an event of political connections, assuming that the stock market is efficient and the change in stock returns of an individual company as a result of a particular event provides an unbiased estimate of the value relevance of the event that is immediately available. Using several political events from 1995 to 2007, I will investigate the impact of the gain and loss of connections on stock returns of PM firms, relative to non-PM firms in

the same industry. I will measure the value of connections using market-adjusted cumulative abnormal stock returns (CARs) during window periods and compare the differences in market-adjusted cumulative abnormal stock returns (CARs) between PM firms and non-PM firms. Window periods include 2-day (-1, 0), 3-day (-1, +1) and 5-day (-2, +2) periods. The t-statistics are used to test the difference in mean value between PM and non-PM firms.

I am also interested in measuring long-term market-based performance. I use the market-adjusted cumulative abnormal returns (CARs) and market-adjusted buy and hold returns (BHARs) as measures of long-term stock return performance. The CARs and BHARs are indicators for measuring stock price performance over a long period.[19] The CARs measures the market-adjusted abnormal returns cumulated over time up to period T, while the BHARs measures the market-adjusted buy and hold returns by assuming that an investor buys a stock and holds it until the end of period T.

The market benchmark is the index of Stock Exchange of Thailand (SET). The SET index is a market capitalisation weighted price index that compares the current market value of all listed common stocks with the value on the base value of 30 April 1975 (the date when the SET index was established and set at 100 points).

The market-adjusted abnormal returns (ARs) are the difference between individual stock returns ($r_{i,t}$) and the market return ($r_{m,t}$). The market return is measured by the SET index.

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

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

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

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[19] Barber and Lyon (1997) discuss about measures of long-term stock return.

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

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

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

$$BHAR_{i,T} = \prod_{t=1}^{T} (1+r_{i,t}) - \prod_{t=1}^{T} (1+r_{m,t})$$

where $BHAR_{i,T}$ is the market-adjusted buy and hold returns for an individual stock i by assuming that an investor buys a stock and holds it until the end of period T.

5.4.3 Characteristic differences

The summary statistics are reported for a total of 128 firm-year observations between 1995 and 2007, covering the pre-election, appointment and decline-coup periods. I winsorise the data in order to deal with both positive and negative outlier values of financial data. The financial data are winsorised at the 5th percentile and 95th percentile. The mean, median, standard deviation, minimum and maximum of all financial variables, are shown in Table 5.2.

Table 5.2 shows that the size, measured by natural logarithm of total assets, of sample firms varies between 7.72 and 11.70. Sample firms in the telecommunications industry seem to be large firms. The market share of sample firms is in a wide range between 0.67% and 45%. Some of sample firms gain a very small market share, while some of them control almost half of the market. The median value of return on assets, return on equity and ratio of market to book value of total assets is 7.58%, 19.83% and 1.20 respectively. The leverage ratio, measured by the ratio of long-term debt to total assets, of sample firms varies between 0.001 and 0.76, while the ratio of long-term

debt to total liabilities is in a range between 0.004 and 0.93. There are both un-leveraged and highly leveraged firms in the sample. On average, the fixed asset ratio and the ratio of capital expenditure to total assets of sample firms are 0.33 and 0.04 respectively. The median value of total asset turnover ratio and fixed asset turnover ratio is 0.33 and 1.4.

Table 5.2: Summary statistics of the sample in the telecommunications industry

This table reports summary statistics of total sample firms, including 128 firm-year observations between 1995 and 2007. The unit of financial variables is Million Baht, except variables measured by ratios.

Variable	Mean	Median	Standard Deviation	Minimum	Maximum
Ln(total assets)	9.9796	10.0125	1.2083	7.7250	11.7049
Market share	0.1016	0.0589	0.1046	0.0067	0.4522
ROA	0.0701	0.0758	0.0912	-0.3572	0.4049
ROE	0.0032	0.1983	2.5037	-23.2856	5.9565
M/B ratio	1.4090	1.2056	0.7118	0.4320	5.7728
LTD/Total assets	0.2937	0.2532	0.2015	0.0010	0.7631
LTD/Total liabilities	0.4391	0.4666	0.2459	0.0043	0.9332
Total PPE/Total assets	0.3397	0.2337	0.2736	0.0176	0.8967
Capex/Total assets	0.0462	0.0284	0.0501	0.0008	0.3038
Total sales/Total assets	0.4746	0.3321	0.4524	0.0619	2.2711
Total sales/Total PPE	4.0758	1.4080	11.7113	0.1227	127.1662

In addition, I investigate the difference in characteristics between PM and non-PM firms in different political periods; pre-election, PM appointment and decline-coup. The t statistics are also used to test the equality of mean values between PM and non-PM firms. The non-parametric Mann Whitney test, is used to test the equality of median values between PM and non-PM firms. The significance levels are reported at 1%, 5% and 10%.

I find that PM firms are significantly larger than non-PM firms at the significance level of 1%, except in the pre-election period. The market share of PM firms is significantly higher than that of non-PM firms at the significance level of 1% and 5% in the pre-election and PM appointment periods, respectively. It seems that firms that are owned by the Shinawatra family gain better competitive market position, relative to other firms in the same industry, during the period of minister and Prime Minister appointments of Thaksin Shinawatra.

Table 5.3: The characteristics of Non-PM firms and PM firms

This table reports the difference in firm characteristics between non-PM firms and PM firms in different periods (pre-election, PM appointment and decline-coup periods). The total observations are 59, 40 and 29 in the pre-election, PM appointment and decline-coup periods. The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The unit of financial variables is Million Baht, except variables measured by ratios.

Panel A: The mean values of variables are presented for each group of firms. The t statistics are used to examine the significance of differences in mean value of each variable between non-PM firms and PM firms.

Variables	Pre-Election		PM appointment		Decline-Coup	
	Non-PM	**PM**	**Non-PM**	**PM**	**Non-PM**	**PM**
	mean	mean	mean	mean	mean	mean
Ln(total assets)	9.9239	10.1653	9.4962	10.8488***	9.5746	11.1075***
Market share	0.0813	0.1480***	0.0703	0.1693**	0.0851	0.1442
ROA	0.0575	0.1405***	0.0322	0.1164***	0.0421	0.1051
ROE	-0.1180	0.5901	-0.4635	0.2662	0.1238	0.2145
M/B ratio	1.3159	2.2566***	1.0643	1.5359***	1.2523	1.3893
LTD/Total assets	0.3121	0.2385	0.3716	0.2767	0.2328	0.2356
LTD/Total liabilities	0.4073	0.3684	0.5032	0.5191	0.3959	0.5146
Total PPE/Total assets	0.4168	0.4258	0.2869	0.4008	0.2404	0.1195**
Capex/Total assets	0.0272	0.0357	0.0347	0.1162***	0.0586	0.0694
Total sales/Total assets	0.2787	0.3554*	0.6926	0.3136**	0.8579	0.2893**
Total sales/Total PPE	1.5944	3.9123**	4.7426	1.7962*	10.0170	3.4694
no. of observations	41	18	28	12	20	9

Table 5.3: The characteristics of Non-PM firms and PM firms (continue)

Panel B: The median values of variables are presented for each group of firms. The Mann-Whitney test is used to examine the significance of differences in median value of each variable between non-PM firms and PM firms.

Variables	Pre-Election		PM appointment		Decline-Coup	
	Non-PM median	**PM** median	**Non-PM** median	**PM** median	**Non-PM** median	**PM** median
Ln(total assets)	10.0278	10.3107	9.7173	10.9246***	9.6539	11.2697***
Market share	0.0623	0.1592***	0.0453	0.0647*	0.0330	0.0631*
ROA	0.0440	0.1213***	0.0373	0.1281***	0.0766	0.1305*
ROE	0.1270	0.4120***	0.0985	0.2615**	0.1442	0.2107
M/B ratio	1.1109	1.8239***	1.0538	1.5249***	1.1501	1.5084
LTD/Total assets	0.3126	0.1992	0.3718	0.2532	0.1892	0.2105
LTD/Total liabilities	0.4520	0.3167	0.5361	0.5722	0.3665	0.4818
Total PPE/Total assets	0.4722	0.5046	0.1520	0.3332	0.2373	0.0876**
Capex/Total assets	0.0192	0.0274*	0.0225	0.1031***	0.0497	0.0452
Total sales/Total assets	0.2844	0.3773*	0.5847	0.2386**	0.5150	0.2085**
Total sales/Total PPE	0.7399	0.7816	3.4613	0.5839**	2.3704	1.8907
no. of observations	41	18	28	12	20	9

The return on assets and M/B ratio of PM firms are significantly higher than those of non-PM firms at the significance level of 1% in the pre-election and PM appointment periods. PM firms perform significantly better than non-PM firms only when Thaksin Shinawatra was appointed minister and Prime Minister. Interestingly, the leverage ratio is not different between PM firms and non-PM firms in all three sample periods. I also find that the fixed asset ratio of PM firms is significantly less than that of non-PM firms at the significance level of 5% only in the decline-coup period. However, in the PM appointment period, the ratio of capital expenditure to total assets of PM firms is significantly higher than that of non-PM firms at the 1% significance level.

In addition, I find that the firm efficiency of PM firms, measured by the total asset turnover and fixed asset turnover ratios, is significantly higher than that of non-PM firms in the pre-election period. During the PM appointment period, the total asset turnover and fixed asset turnover ratios of PM firms are significantly lower than those of non-PM firms at the significance level of 5% and 10% respectively. It seems that the efficiency of PM firms decreases when Thaksin becomes Prime Minister.

Panel B of Table 5.3 shows the Mann-Whitney test for the equality of median values between PM and non-PM firms. The results in Panel B are similar to the results of the t statistics. However, I find that, in the decline-coup period, the market share and return on assets of PM firms are significantly higher than those of non-PM firms at the significance level of 10%. The return on equity is found to be significantly higher for PM firms than for non-PM firms in the pre-election and PM appointment periods. In addition, the ratio of capital expenditure to total assets of PM firms is significantly higher than that of non-PM firms in the pre-election period.

In conclusion, since Thaksin had entered into Thai politics, the market share and performance are higher for PM firms than for non-PM firms. It seems that such benefits could not be maintained in the decline-coup period. I also find that PM firms may not put an effort to improve their efficiency after gaining political connections. PM firms have better firm efficiency than non-PM firms before the appointment of

Thaksin as Prime Minister. However, after the Thaksin's Prime Minister appointment, the firm efficiency is lower for PM firms than for Non-PM firms. Interestingly, political connections seem to have no impact on debt financing policies.

5.4.4 Empirical results

Table 5.4 shows the results of the impact of connections on firm performance in the telecommunications industry. Panel A of Table 5.4 reports that the coefficient of PM dummy is significantly related to return on assets at the significance level of 5% or better from 1995 to 2007. The return on assets of PM firms is always higher than that of non-PM firms. However, using the proxy of Tobin's Q ratio to measure firm performance in Panel B of Table 5.4, I find that the coefficient of the interactive term between the PM dummy and the pre-election dummy is positively related to the ratio of market to book value of total assets at the significance level of 10%. In the pre-election period, PM firms have marginally better performance than non-PM firms.

In column 3 of Panel B, Table 5.4, I find that the coefficient of PM dummy is significantly related to the M/B ratio at the significance level of 1%. The coefficient of the interactive term between the PM dummy and the decline-coup dummy is negatively related to the M/B ratio at the significance level of 5%. The results show that firms that are owned by the Shinawatra family have better performance than other firms in the same industry. However, the performance of these PM firms is less than that of non-PM firms in the decline-coup period. As a result of the political decline and overthrown of Thaksin by the military coup, PM firms perform poorer than non-PM firms in the decline-coup period, compared to other sample periods.

Table 5.4: Impact of political connections on performance of firms in the telecommunications industry

Panel A: This table reports the results of the pooled OLS regression. The dependent variable is return on assets. PM is a dummy variable that equals 1 if a firm is owned by Prime Minister Thaksin Shinawatra's family, and zero otherwise. Pre-Election is a dummy variable that equals 1 in the period of 1995-2000, and zero otherwise. Appointment is a dummy variable that equals 1 in the period of 2001-2004, and zero otherwise. Decline-coup is a dummy variable that equals 1 in the period of 2005-2007, and zero otherwise. Pre-Crisis is a dummy variable that equals 1 in the period of 1995-1996, and zero otherwise. Crisis is a dummy variable that equals 1 in the period of 1997-1998, and zero otherwise. Natural logarithm of total assets is an indicator for size. The fixed asset ratio is a measure of asset tangibility. Leverage ratio is defined by a ratio of long-term debt to total assets. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The regression controls for industry effects. The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

Dependent variable:	(1)	(2)	(3)	(4)	(5)
ROA					
PM dummy	0.0575**	0.0685**	0.0737***	0.0750**	0.0657**
	(0.048)	(0.013)	(0.006)	(0.011)	(0.037)
Pre-Election dummy	0.0214				
	(0.386)				
PM x Pre-Election	0.0214				
	(0.340)				
Appointment dummy		-0.0178			
		(0.330)			
PM x Appointment		0.0040			
		(0.817)			
Decline-coup dummy			-0.0098		
			(0.677)		
PM x Decline-coup			-0.0341		
			(0.228)		
Pre-Crisis dummy				0.0425	
				(0.335)	
PM x Pre-Crisis				-0.0370	
				(0.237)	
Crisis dummy					0.0047
					(0.832)
PM x Crisis					0.0126
					(0.741)
Ln(total assets)	0.0119	0.0096	0.0129	0.0094	0.0112
	(0.357)	(0.462)	(0.349)	(0.442)	(0.411)
Total PPE/Total assets	-0.0332	-0.0214	-0.0300	-0.0056	-0.0241
	(0.164)	(0.285)	(0.196)	(0.849)	(0.289)
LTD/Total assets	-0.0208	-0.0117	-0.0306	-0.0148	-0.0244
	(0.696)	(0.838)	(0.490)	(0.781)	(0.636)
constant	-0.0616	-0.0309	-0.0577	-0.0452	-0.0480
	(0.670)	(0.826)	(0.684)	(0.755)	(0.743)
Observations	128	128	128	128	128
Adjusted R^2	0.1615	0.1429	0.1488	0.1537	0.1373

Table 5.4: Impact of political connections on performance of firms in the telecommunications industry (continue)

Panel B: This table reports the results of the pooled OLS regression. The dependent variable is the ratio of market to book value of total assets (the proxy of Tobin's Q ratio). PM is a dummy variable that equals 1 if a firm is owned by Prime Minister Thaksin Shinawatra's family, and zero otherwise. Pre-Election is a dummy variable that equals 1 in the period of 1995-2000, and zero otherwise. Appointment is a dummy variable that equals 1 in the period of 2001-2004, and zero otherwise. Decline-coup is a dummy variable that equals 1 in the period of 2005-2007, and zero otherwise. Pre-Crisis is a dummy variable that equals 1 in the period of 1995-1996, and zero otherwise. Crisis is a dummy variable that equals 1 in the period of 1997-1998, and zero otherwise. Natural logarithm of total assets is an indicator for size. The fixed asset ratio is a measure of asset tangibility. Leverage ratio is defined by a ratio of long-term debt to total assets. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The regression controls for industry effects. The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

Dependent variable:	(1)	(2)	(3)	(4)	(5)
M/B ratio					
PM dummy	0.1012	0.5628*	0.6163***	0.4076**	0.4533*
	(0.556)	(0.075)	(0.009)	(0.030)	(0.084)
Pre-Election dummy	0.2224*				
	(0.053)				
PM x Pre-Election	0.7465*				
	(0.071)				
Appointment dummy		-0.1717			
		(0.148)			
PM x Appointment		-0.2238			
		(0.451)			
Decline-coup dummy			-0.1271		
			(0.599)		
PM x Decline-coup			-0.7556**		
			(0.020)		
Pre-Crisis dummy				0.6112***	
				(0.000)	
PM x Pre-Crisis				0.4455	
				(0.487)	
Crisis dummy					-0.2448**
					(0.011)
PM x Crisis					0.1159
					(0.677)
Ln(total assets)	0.1312*	0.0826	0.1292*	0.0910	0.0982
	(0.066)	(0.231)	(0.059)	(0.153)	(0.186)
Total PPE/Total assets	-0.6872***	-0.4665***	-0.6708***	-0.0873	-0.3643**
	(0.002)	(0.003)	(0.000)	(0.694)	(0.011)
LTD/Total assets	-0.9188**	-0.7797**	-1.0187***	-0.8210**	-0.9094**
	(0.019)	(0.043)	(0.009)	(0.039)	(0.014)
constant	0.3647	0.8750	0.5410	0.5361	0.7141
	(0.524)	(0.175)	(0.384)	(0.315)	(0.284)
Observations	128	128	128	128	128
Adjusted R^2	0.3620	0.2368	0.2891	0.3446	0.2185

Table 5.5: Difference-in-differences estimates on performance of firms in the telecommunications industry

Panel A: This table reports the difference-in-differences estimates on firm performance, which is the return on assets. Firms are classified into two groups; PM and non-PM firms. Pre-Election is a period of 1995-2000. Appointment is a period of 2001-2004. Decline-coup is a period of 2005-2007. Pre-Crisis is a period of 1995-1996. Crisis is a period of 1997-1998. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

ROA		**PM**	**NON-PM**	Difference
Pre-Election	(1)	0.141	0.058	0.083***
				(0.007)
Appointment	(2)	0.116	0.032	0.084**
				(0.016)
Decline-Coup	(3)	0.105	0.042	0.063
				(0.133)
Pre-Crisis	(4)	0.126	0.086	0.040
				(0.289)
Crisis	(5)	0.126	0.050	0.076***
				(0.007)
Difference	(1) - (2)	0.024	0.025	-0.001
		(0.100)	(0.319)	(0.961)
Difference	(2) - (3)	0.011	-0.010	0.021
		(0.630)	(0.642)	(0.442)
Difference	(4) - (5)	0.001	0.037	-0.036
		(0.985)	(0.265)	(0.464)

Panel B: This table reports the difference-in-differences estimates on the proxy of Tobin's Q ratio. Firms are classified into two groups; PM and non-PM firms. Pre-Election is a period of 1995-2000. Appointment is a period of 2001-2004. Decline-coup is a period of 2005-2007. Pre-Crisis is a period of 1995-1996. Crisis is a period of 1997-1998. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

M/B ratio		**PM**	**NON-PM**	Difference
Pre-Election	(1)	2.257	1.316	0.941**
				(0.037)
Appointment	(2)	1.536	1.064	0.472**
				(0.021)
Decline-Coup	(3)	1.389	1.252	0.137
				(0.632)
Pre-Crisis	(4)	2.739	1.828	0.911
				(0.243)
Crisis	(5)	1.490	0.980	0.510*
				(0.062)
Difference	(1) - (2)	0.721	0.252***	0.469
		(0.196)	(0.005)	(0.187)
Difference	(2) - (3)	0.147	-0.188	0.335
		(0.295)	(0.421)	(0.185)
Difference	(4) - (5)	1.249	0.848***	0.401
		(0.167)	(0.000)	(0.453)

Table 5.5 reports the difference in differences on firm performance. Panel A of Table 5.5 shows that the average return on assets of PM firms is higher than that of non-PM firms at the significance level of 5% in the appointment period and of 1% in the pre-election and crisis periods. Using the average ratio of market to book value of total assets in Panel B, I find similar results. In addition, I find that the average M/B ratio of non-PM firms significantly decreases from the pre-election to appointment period and from the pre-crisis to crisis period, both at the significance level of 1%.

The findings in Table 5.6 show the impact of political connections on market share. I find that the coefficient of PM dummy and the coefficient of the interactive term between the PM dummy and the period dummy are not significantly related to market share. The results reject the hypothesis H1 (1.2). The political connections do not affect the market share of firms in the telecommunications industry. In addition, the results are consistent with the findings in Table 5.7. I find that there is no difference in market share between PM (connections) differentials.

Table 5.6: Impact of political connections on market share of firms in the telecommunications industry

This table reports the results of the pooled OLS regression. The dependent variable is the ratio of a firm's total sales to total sales of all firms in the same industry. PM is a dummy variable that equals 1 if a firm is owned by Prime Minister Thaksin Shinawatra's family, and zero otherwise. Pre-Election is a dummy variable that equals 1 in the period of 1995-2000, and zero otherwise. Appointment is a dummy variable that equals 1 in the period of 2001-2004, and zero otherwise. Decline-coup is a dummy variable that equals 1 in the period of 2005-2007, and zero otherwise. Pre-Crisis is a dummy variable that equals 1 in the period of 1995-1996, and zero otherwise. Crisis is a dummy variable that equals 1 in the period of 1997-1998, and zero otherwise. ROA is a ratio of earnings before interest and tax to total assets. Leverage ratio is a ratio of long-term debt to total assets. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The regression controls for industry effects. The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

Dependent variable: Market share	(1)	(2)	(3)	(4)	(5)
PM dummy	0.0750	0.0573	0.0742	0.0686	0.0710
	(0.463)	(0.422)	(0.357)	(0.440)	(0.424)
Pre-Election dummy	0.0018				
	(0.928)				
PM x Pre-Election	-0.0152				
	(0.841)				
Appointment dummy		-0.0163			
		(0.144)			
PM x Appointment		0.0375			
		(0.538)			
Decline-coup dummy		0.0175			
		(0.573)			
PM x Decline-coup		-0.0245			
		(0.578)			
Pre-Crisis dummy			0.0037		
			(0.863)		
PM x Pre-Crisis			-0.0013		
			(0.988)		
Crisis dummy				0.0003	
				(0.984)	
PM x Crisis				-0.0170	
				(0.840)	
ROA	0.1505	0.1424	0.1472	0.1450	0.1472
	(0.223)	(0.237)	(0.201)	(0.209)	(0.195)
LTD/Total assets	0.0761	0.0806	0.0820	0.0773	0.0782
	(0.403)	(0.390)	(0.390)	(0.402)	(0.381)
constant	0.0471*	0.0520**	0.0423	0.0473*	0.0474*
	(0.079)	(0.035)	(0.118)	(0.076)	(0.054)
Observations	128	128	128	128	128
Adjusted R^2	0.1118	0.117	0.1141	0.1105	0.1115

Table 5.7: Difference-in-differences estimates on market share of firms in the telecommunications industry

This table reports the difference-in-differences estimates on market share, which is the ratio of a firm's total sales to total sales of all firms in the same industry. Firms are classified into two groups; PM and non-PM firms. Pre-Election is a period of 1995-2000. Appointment is a period of 2001-2004. Decline-coup is a period of 2005-2007. Pre-Crisis is a period of 1995-1996. Crisis is a period of 1997-1998. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

		PM	NON-PM	Difference
Pre-Election	(1)	0.148	0.081	0.067
				(0.280)
Appointment	(2)	0.169	0.070	0.099
				(0.380)
Decline-Coup	(3)	0.144	0.085	0.059
				(0.533)
Pre-Crisis	(4)	0.152	0.083	0.069
				(0.349)
Crisis	(5)	0.146	0.080	0.066
				(0.337)
Difference	(1) - (2)	-0.021	0.011	-0.032
		(0.844)	(0.424)	(0.704)
Difference	(2) - (3)	0.025	-0.015	0.040
		(0.442)	(0.503)	(0.224)
Difference	(4) - (5)	0.006	0.003	0.003
		(0.536)	(0.723)	(0.783)

Table 5.8 shows the impact of political connections on debt financing. In column 2 of Table 5.8, I find that the coefficient of the interactive term between the PM dummy and the appointment dummy is negatively related to the leverage ratio at the significance level of 5%. The leverage ratio of PM firms is lower than that of non-PM firms in the appointment period. The results imply that debt financing is not the main source of funds for PM firms during the appointment period. It could be that equity financing becomes an alternative of external financing for PM firms because investors may value the presence of connections and are willing to buy shares of PM firms. Another reason is that PM firms may generate sufficient cash flow for their investment during this period. The findings support the results in Table 5.3 that the ratio of capital expenditure to total assets is higher for PM firms than for non-PM firms in the appointment period.

Table 5.8: Impact of political connections on debt financing of firms in the telecommunications industry

This table reports the results of the pooled OLS regression. The dependent variable is the ratio of long-term debt to total assets. PM is a dummy variable that equals 1 if a firm is owned by Prime Minister Thaksin Shinawatra's family, and zero otherwise. Pre-Election is a dummy variable that equals 1 in the period of 1995-2000, and zero otherwise. Appointment is a dummy variable that equals 1 in the period of 2001-2004, and zero otherwise. Decline-coup is a dummy variable that equals 1 in the period of 2005-2007, and zero otherwise. Pre-Crisis is a dummy variable that equals 1 in the period of 1995-1996, and zero otherwise. Crisis is a dummy variable that equals 1 in the period of 1997-1998, and zero otherwise. Natural logarithm of total assets is an indicator for size. The fixed asset ratio is a measure of asset tangibility. ROA is a ratio of earnings before interest and tax to total assets. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The regression controls for industry effects. The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

Dependent variable: LTD/Total assets	(1)	(2)	(3)	(4)	(5)
PM dummy	-0.1848*	-0.1045	-0.1377	-0.1552	-0.1598
	(0.084)	(0.360)	(0.187)	(0.164)	(0.117)
Pre-Election dummy	-0.0512				
	(0.367)				
PM x Pre-Election	0.0947				
	(0.206)				
Appointment dummy		0.1213***			
		(0.008)			
PM x Appointment		-0.1252**			
		(0.033)			
Decline-coup dummy			-0.0816*		
			(0.080)		
PM x Decline-coup			0.0143		
			(0.833)		
Pre-Crisis dummy				-0.0665	
				(0.254)	
PM x Pre-Crisis				0.0994	
				(0.103)	
Crisis dummy					-0.0449
					(0.164)
PM x Crisis					0.1391**
					(0.049)
Ln(total assets)	0.0947***	0.0940***	0.0915***	0.0919***	0.0928***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Total PPE/Total assets	0.0937	0.1013	0.0516	0.0697	0.0725
	(0.219)	(0.239)	(0.568)	(0.473)	(0.440)
ROA	-0.0875	-0.0454	-0.1248	-0.0621	-0.0997
	(0.728)	(0.849)	(0.576)	(0.798)	(0.685)
constant	-0.6105**	-0.6696***	-0.5685**	-0.5906**	-0.6006**
	(0.017)	(0.010)	(0.027)	(0.023)	(0.018)
Observations	128	128	128	128	128
Adjusted R^2	0.2777	0.319	0.2885	0.2736	0.2768

However, the findings in column 5 of Table 5.8 show that the coefficient of the interactive term between the PM dummy and the crisis dummy is positively related to the leverage ratio at the significance level of 5%. The leverage ratio of PM firms is higher than that of non-PM firms in the crisis period, implying that PM firms could obtain an easier access to debt financing than non-PM firms during the period of financial constraints in the Thai financial market.

Table 5.9 shows the difference in difference on debt financing of firms in the telecommunications industry. I find that the average leverage ratio of non-PM firms significantly decreases from the appointment period to the decline-coup period at the significance level of 1%. I also find the difference in the average leverage ratio between PM firms and non-PM firms after the loss of connections at the significance level of 10%.

Table 5.9: Difference-in-differences estimates on debt financing of firms in the telecommunications industry

This table reports the difference-in-differences estimates on debt financing, which is the ratio of long-term debt to total assets. Firms are classified into two groups; PM and non-PM firms. Pre-Election is a period of 1995-2000. Appointment is a period of 2001-2004. Decline-coup is a period of 2005-2007. Pre-Crisis is a period of 1995-1996. Crisis is a period of 1997-1998. The White's standard errors are adjusted for heteroskedasticity (White, 1980). The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The figures in parentheses report p-value for two-tailed tests.

		PM	NON-PM	Difference
Pre-Election	(1)	0.238	0.312	-0.074
				(0.389)
Appointment	(2)	0.277	0.372	-0.095
				(0.345)
Decline-Coup	(3)	0.236	0.233	0.003
				(0.978)
Pre-Crisis	(4)	0.204	0.258	-0.054
				(0.487)
Crisis	(5)	0.330	0.323	0.008
				(0.947)
Difference	(1) - (2)	-0.038	-0.060	0.021
		(0.571)	(0.425)	(0.806)
Difference	(2) - (3)	0.041	0.139 ***	-0.098 *
		(0.381)	(0.005)	(0.059)
Difference	(4) - (5)	-0.126	-0.064	-0.062
		(0.104)	(0.313)	(0.395)

Table 5.10: Event study: the impact of political connections on firms in the telecommunications industry

This table reports the effects of political connections on stock returns, using the event study. The event date refers to the news announcement date in which the event was first reported. The market response to news announcements is measured by market-adjusted cumulative abnormal returns (CARs). Market-adjusted abnormal returns are cumulative over window periods of (-1, 0), (-1, +1) and (-2, +2). The market benchmark is the index of Stock Exchange of Thailand (SET). Firms are classified into two groups; PM and non-PM firms. PM firms are firms that are owned by Prime Minister Thaksin's family. The t statistics are used to examine the significance of differences in mean value between these two groups. The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported. The mean value of market-adjusted abnormal returns (ARs) of each group is also investigated whether it is equal to 0.The figures in parentheses report p-value for two-tailed tests.

Event date	News	Window periods					
		(-1,0)		(-1, +1)		(-2, +2)	
		PM	Non	PM	Non	PM	Non
30/06/1997	General Chavalit Yongchaiyudh denied Baht devaluation	0.1259	-0.0224**	0.1432	-0.0185**	0.1969	-0.0403***
		(0.020)	(0.513)	(0.016)	(0.569)	(0.010)	(0.285)
02/07/1997	Baht Devaluation	0.0624	0.0074	0.0704	0.0152	0.1844	-0.0261**
		(0.087)	(0.703)	(0.078)	(0.454)	(0.013)	(0.634)
06/01/2001	Election (1st election: Thai Rak Thai (TRT) party won the election)	-0.0086	0.0100	-0.0040	0.0166	-0.0175	0.0071
		(0.607)	(0.314)	(0.878)	(0.174)	(0.130)	(0.643)
18/01/2001	Asset concealing accusation of Thaksin had been forwarded to the Constitutional Court	0.0224	0.0007	0.0172	0.0504	0.0195	0.0547
		(0.249)	(0.953)	(0.110)	(0.036)	(0.111)	(0.024)
09/02/2001	Thaksin Shinawatra Prime Minister appointment	0.0178	-0.0132	0.0272	-0.0396**	0.0374	-0.0545***
		(0.425)	(0.266)	(0.374)	(0.033)	(0.096)	(0.011)
03/08/2001	Constitutional court announced that Thaksin is not guilty of hiding assets	0.0135	0.0024	0.0203	-0.0223	0.0468	-0.0338**
		(0.647)	(0.797)	(0.424)	(0.122)	(0.267)	(0.037)
09/11/2001	Telecommunications Business Act was passed to limit foreign ownership at 25%	0.0141	-0.0096	0.0208	0.0153	0.0186	-0.0248
		(0.205)	(0.517)	(0.270)	(0.536)	(0.419)	(0.154)
21/01/2003	A bill to introduce 10% tax on new entrants to the telecoms industry was passed	0.0020	0.0061	-0.0052	0.0134	0.0001	0.1282
		(0.864)	(0.702)	(0.279)	(0.533)	(0.995)	(0.057)
20/11/2003	8-year tax holiday was granted to SATTEL	0.0425	-0.0246**	0.0296	-0.0324**	0.0247	-0.0020
		(0.379)	(0.040)	(0.401)	(0.013)	(0.153)	(0.928)
29/01/2004	Concession fee cut for ITV	0.0217	0.0084	0.0213	-0.0112**	-0.0027	-0.0389
		(0.033)	(0.291)	(0.016)	(0.133)	(0.894)	(0.055)

Table 5.10: Event study (continue)

Event date	News	Window periods					
		(-1,0)		(-1, +1)		(-2, +2)	
		PM	Non	PM	Non	PM	Non
06/02/2005	Election (2nd election: TRT party won the election)	0.0193	-0.0136***	0.0191	-0.0101	0.0375	-0.0205***
		(0.278)	(0.001)	(0.384)	(0.269)	(0.093)	(0.001)
06/01/2006	Rumor on share sale of Shin corporation	-0.0105	0.0389	-0.0228	0.0404	-0.0073	0.0393
		(0.060)	(0.422)	(0.042)	(0.384)	(0.628)	(0.403)
23/01/2006	Telecommunication Act Amendment and Shin Corp share sale to Temasek	0.0077	-0.0416	-0.0113	-0.0358	-0.0223	-0.0282
		(0.712)	(0.179)	(0.757)	(0.361)	(0.188)	(0.656)
25/01/2006	Evidence about Nominee Kurapkaew of Temasek	-0.0224	-0.0165	-0.0375	-0.0266	-0.0416	-0.0697
		(0.084)	(0.577)	(0.083)	(0.401)	(0.238)	(0.395)
24/02/2006	Panthongtae fined on disclosure violation and House dissolution	-0.0055	0.0146	-0.0188	-0.0004	-0.0183	-0.0179
		(0.641)	(0.302)	(0.394)	(0.981)	(0.391)	(0.324)
02/04/2006	Election (3rd Election: TRT won the election, which was boycotted by opposition parties)	-0.0076	0.0056	-0.0235	0.0000	0.0003	-0.0090
		(0.718)	(0.553)	(0.494)	(0.998)	(0.987)	(0.448)
19/09/2006	Coup announcement	-0.0071	-0.0134	-0.0071	-0.0134	-0.1301	-0.1045
		(0.673)	(0.413)	(0.673)	(0.413)	(0.296)	(0.101)
17/10/2006	Thaksin confirmed not to return to Thailand in the near future.	0.0216	-0.0141**	0.0278	-0.0268***	0.0012	-0.0362
		(0.170)	(0.048)	(0.132)	(0.003)	(0.737)	(0.037)

Note: The first trading day after the news announcement is defined as the event date to calculate abnormal return if the event is not announced on a trading day.

I also use an event study to examine whether political connections are valuable for firms in the telecommunications industry in Table 5.10. Firms are classified into two groups; PM and non-PM firms. PM firms are firms that are owned by Prime Minister Thaksin's family. The t statistics are used to examine the significance of differences in mean value between these two groups. There are several political events that are collected to investigate the impact of connections on market-adjusted cumulative abnormal returns (CARs).

On the event date of 30 June 1997, General Chavalit Yongchaiyuth denied the devaluation of Baht. I find that CARs of PM firms are higher than those of non-PM firms at the significance level of 5% or better over the window periods of (-1, 0), (-1, +1) and (-2, +2). In addition, the results show that after the Baht is floated, CARs of PM firms are higher than those of non-PM firms at the significance level of 5% over the window period of (-2, +2). The awareness of Thaksin Shinawatra on Thai currency devaluation may give the impression to investors that his family firms may be well-managed to protect any possibility of the Baht devaluation. When the former Prime Minister Chavalit announced to deny the Baht devaluation, the stock reactions were positive for PM firms.

There is evidence to show that Thaksin benefited from inside information about the devaluation of Baht, which allowed him to prevent substantial losses from foreign currency debts to his family business group (Khanthong, 2001; The Nation, 2005). As cited by The Nation newspaper, the book by Panthep Phuaphongphand, entitled "The 2540 Confidential Report: The Truth That Has Been Concealed For a Long Time", is based on the memoirs of General Chavalit Yongchaiyudh, who was the Thai Prime Minister when the Baht currency was floated. In this book, Thaksin was named amongst other those who knew about the Bath devaluation beforehand (Phuaphongphand, 2005).

It has been criticised that Bhokin Bhalakula, one of Thaksin's connected persons, who was involved in the decision making to float Baht, might have leaked the crucial information. The high court's verdict on the litigation between Suthep

Thaugsuban, Democrat Party secretary-general, and Bhokin, the former Prime Minister's office minister, was released to testify that the presence of Bhokin in a meeting, arranged before the baht devaluation, was unauthorized (Taengkhio, 2008). Phuaphongphand (2008a, b) addressed that the information Bhokin obtained had possibly passed to Thaksin. He also reports the unforeseen wealth of Bhokin and foreign currency risk management that Thaksin had well-arranged for his companies. Financial statements of the second quarter in 1997 of the Shin Corporation, compared to those of the second quarter in 1996 and of the first quarter in 1997, show that the Shin Corporation had arranged several transactions to prevent the Baht flotation.

It could be argued that the management of Shin Corporation might be competent to foresee the event of Baht devaluation; however, it is difficult to believe that they had made the decision based on publicly available information. At that time, there was no sign of Baht devaluation because the Thai government had committed to peg Baht to Dollar and the level of foreign exchange reserve was not public information (Phuaphongphand, 2008a, b and Limthongkul, 2008).

In addition, the first election of Thai Rak Thai Party and the allegation of Thaksin's asset concealment in January 2001 demonstrate the uncertainty of political power of Thaksin. The results show that CARs of PM and non-PM firms are not different around these events. However, when Thaksin was officially appointed Prime Minister, CARs of PM firms were significantly higher than those of non-PM firms over the window periods of (-1, +1) and (-2, +2) at the significance level of 5% and 1%, respectively. On the 3rd of August in 2001, CARs of PM firms is found to be significantly higher than those of non-PM firms over the window period of (-2, +2) when the Constitutional court announced that Thaksin is not guilty of hiding assets.

I also investigate the value of political connections, using the four events examined in Bunkanwanich and Wiwattanakantang (2008). The results show that CARs of PM and non-PM firms are not different when the news about the regulations of foreign ownership and tax duty in the telecommunications industry are released. It is likely that all firms in the industry benefit from these events. However, I find

similar results to Bunkanwanich and Wiwattanakantang (2008). The CARs of PM firms are significantly higher than those of non-PM firms when government privileges are granted to SATTEL and ITV, which are owned by the Shinawatra family.

Furthermore, the results show that CARs of PM firms are significantly higher than those of non-PM firms around the second election of Thai Rak Thai Party in 2005. The stock reactions are positive to PM firms as a result of the appointment of Thaksin as Prime Minister for the second term. However, I find that CARs of PM firms and non-PM firms are not different in the declining period until the coup event in 2006. After the coup event, Thaksin has been in exile and the case of share sale of Shin Corporation to Temasek are investigated by authorities. Several corruption cases of the Thaksin government are found. When Thaksin confirmed that he might not return to Thailand in the near future in October 2006, market response to this news was positive to firms that are now owned by Temasek. The CARs of firms of Temasek group are higher than other firms in the industry over the window period of (-1, +1) and (-2, +2) at the significance level of 5% and 1%, respectively.

For robustness check, I also investigate the difference in CARs between PM and non-PM firms over two window periods of (-3, +3) and (-5, +5) and the findings are held. In addition, I use the index of telecommunications industry as the market benchmark, the results are consistent with those in Table 5.10.

In order to show the impact of connections on firm performance in the telecommunications industry, I investigate whether the market-adjusted buy and hold returns (BHARs) between PM and non-PM firms are different in Table 5.11. The results show that BHARs of PM firms are higher those of non-PM firms at the significance level of 5% over the long period since Thaksin's appointment as minister until Shin Corporation's share sale to Temasek. The findings are also consistent with those in Table 5.10. The BHARs are higher for PM firms than non-PM firms at the significance level of 1% over 1, 2 and 3 year holding period after the financial crisis in 1997.

Table 5.11: Market-adjusted buy and hold returns of firms in the telecommunications industry

This table reports the average market-adjusted buy and hold returns (BHARs), using the SET index as the benchmark, between Non-PM and PM firms. BHARs are calculated for each firm over consecutive holding periods before and after the month when the event began. The t statistics are used to examine the significance of differences in mean value of each event period between non-PM firms and PM firms. The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported.

Event (t)			Non-PM	PM
Entering into Thai politics to Share sale (Jan 1995 - Jan 2006)		11-year holding period	-0.3045	1.5571 **
Crisis (July 1997)	Before	24 -month holding period	-0.0471	0.1231
		12 -month holding period	-0.0059	0.1109
	After	12 -month holding period	-0.1790	0.2453 ***
		24 -month holding period	-0.1722	0.5966 ***
		36 -month holding period	-0.1348	0.8387 ***
1st Election (Jan 2001)	Before	36 -month holding period	0.4871	3.1384 *
		24 -month holding period	0.6661	1.1602
		12 -month holding period	-0.0977	0.1182
	After	12 -month holding period	-0.4221	-0.1217
		24 -month holding period	-0.8140	-0.5816
		36 -month holding period	-0.3197	-0.7368
2nd Election (Feb 2005)	Before	12 -month holding period	0.1375	0.2219
	After	12 -month holding period	0.5037	-0.0856
Coup event (Sep 2006)	After	12 -month holding period	-0.5632	-0.0954 **

In addition, I find that BHARs of PM and non-PM firms are not different over the period of 2001-2006. The results show that BHARs of both PM firms and non-PM firms are negative one year after the coup event. However, PM firms have higher BHARs than non-PM firms over that period. It could be that those PM firms had obtained benefits in terms of concessions and privileges and such benefits remain for the firms after the coup.

Using the average market-adjusted abnormal returns and the average market-adjusted cumulative abnormal returns as measures of market-based performance, Table 5.12 shows the difference in performance between non-PM and PM firms. I find that PM firms have higher average ARs and average CARs from 1995 to 2005, compared to other firms in the telecommunications industry, at the significance level of 5%. When Thaksin was appointed as minister and Prime Minister, his family firms perform much better than other firms in the same industry. In addition, the average ARs and average CARs of PM firms in the pre-election period are higher than those of non-PM firms at the significance level of 1%. During the crisis (1997-1998) and after

the coup (2007), PM firms have higher average ARs and average CARs than non-PM firms at the significance level of 5% and of 10%, respectively. These results are consistent with those in Table 5.11.

Table 5.12: Market-adjusted abnormal returns and cumulative abnormal returns of firms in the telecommunications industry

This table reports the average market-adjusted abnormal returns (ARs) and average market-adjusted cumulative abnormal returns (CARs), using the SET index as the benchmark, between Non-PM and PM firms. CARs are market-adjusted abnormal returns, cumulated over each sample period. The t statistics are used to examine the significance of differences in mean value of each event period between non-PM firms and PM firms. The statistical significance at levels of 1% (***), 5% (**) and 10% (*) is reported.

Sample periods	Average ARs		Average CARs	
	Non-PM	PM	Non-PM	PM
1st - 2nd Election (2001-2005)	0.0003	0.0001	0.3834	0.0999
Entering Thai politics - 2nd Election (1995-2005)	0.0003	0.0008**	0.7115	2.2163**
Pre-election (1995-2000)	0.0002	0.0014***	0.3093	2.0947***
Appointment (2001-2004) 1st election in 2001	0.0002	0.0002	0.1976	0.1723
Decline-coup (2005-2007) Coup event in 2006	-0.0003	-0.0004	-0.2126	-0.3020
After coup (2007)	-0.0011	0.0004*	-0.2410	0.0879*
Pre-crisis (1995-1996)	-0.0007	0.0001	-0.3387	0.0372
Crisis (1997-1998)	-0.0010	0.0019**	-0.4873	0.9540**
Post crisis (1999-2001)	0.0010	0.0014	0.9230	1.0164

5.5 Summary and conclusion

This chapter investigates the role and impact of connections on performance, market share and debt financing of firms in the telecommunications industry. The role of connections in expanding family firms of the former Prime Minister Thaksin Shinawatra is described. It provides an in-depth understanding of how connections help the firms to expand and sustain themselves in the competitive market over a long period. The group has been granted several government concessions in the telecommunications industry. Political connections have been strengthened by the

involvement of Thaksin in the government as Minister of Foreign Affairs (November 1994 - February 1995), Deputy Minister (July 1995 – August 1996) and (August 1997 – November 1997), and the Prime Minister (February 2001 - September 2006). His involvement in the Thai politics had ended since the military coup in September 2006.

The impact of connections on return on assets of firms in the telecommunications industry is significant over the sample periods. The return on assets and the market to book ratio of PM firms are significantly higher than those of non-PM firms from 1995 to 2004. The relationship between the presence of connections and the market to book ratio is also positively significant in the pre-election period. However, the presence of connections is negatively related to the market to book ratio of firms in the telecommunications industry in the decline-coup period. The results imply that the presence of connections is important for firms. Firms that lose connections perform poorer than non-connected firms.

In addition, the results show that the impact of connections on market share of the Shinawatra family firms is not significant. The market share between PM firms and non-PM firms is not different in the telecommunications industry. It is also evident that the presence of connections is negatively related to the leverage ratio of PM firms in the appointment period. However, the relationship between the presence of connections and the leverage ratio of PM firms is positively significant in the crisis period. The findings show that PM firms obtain an easy access to debt financing during the crisis and it may be easier for them to raise external funds through the equity market in the appointment period. It could also be that PM firms generate sufficient cash flow for their investment in the appointment period.

I also find that the market response to the presence of connections is significant. The market-adjusted cumulative abnormal returns (CARs) of PM firms are significantly higher than those of non-PM firms over different window periods in consequence of the appointment of Thaksin as Prime Minister in 2001, government privileges to PM firms in 2003 and 2004, and the second election in 2005. The results indicate the value of connections. PM firms also perform much better than non-PM

firms over the crisis period (1997-1999). The stock reactions to the rumor of Baht devaluation of PM firms are positive. In particular, the market-based performance, measured by average BHARs, average ARs and average CARs, of PM firms is higher than that of non-PM firms over a period between the minister appointment of Thaksin and the share sale of Shin Corporation to Temasek.

Overall, the results show that PM firms outperform other firms in the telecommunications industry. PM firms obtain an easy access to external funds in the crisis, compared to other firms in the same industry. On the one hand, this analysis examines the role of political connections, the significance of connections on firm performance and the impact of connections on debt financing policy. On the other hand, it provides additional evidence to show that crony capitalism exists in Thailand.

CHAPTER 6: CONCLUSION AND RECOMMENDATION

6.1 Aims and objectives of the thesis

This study focuses on the institutional characteristics and framework in Thailand in order to investigate the role and significance of connections. Thai firms are considered and used as a representative of firms in emerging markets because they operate in a similar institutional framework in terms of ownership structure, family business groups, and a weak legal system, as in most emerging markets. The main objectives of each of the chapters were as follows.

The aims of Chapter 3 were to discuss the background of institutions in Thailand to provide an insight into the institutional framework that characterises and affects the presence of connections between firms and the government. The political revolution in 2006 marks a scheme break in Thai politics. The family-owned firms that were connected to the government during the Prime Minister appointment period of Thaksin had lost political connections as a result of the military coup in 2006. The political scheme that was dominated by big business owners over a long period has been used to examine the impact connections on firm performance, market coverage and debt financing (Chapter 4). In particular, family firms of the former Prime Minister Thaksin, compared to other firms in the telecommunications, have been investigated in details in aspects of the impact of connections and the value of political connections (Chapter 5).

The objectives of Chapter 4 were to examine the differences between politically-connected firms and non-connected firms, and the impact of political connections on firm performance, market coverage and debt financing. I present the descriptive statistics to show the characteristics of the two groups (connected firms and non-connected firms) and the equality tests of mean and median values to indicate the

significance of differences between the two groups. In addition, the impact of political connections on firm performance, market coverage and debt financing has investigated in different political periods (over a long period of 1998-2007). I have examined whether the performance, market coverage and debt financing of connected firms are higher for connected firms, compared to non-connected firms, in the appointment period of Thaksin as Prime Minister. I have also investigated whether the firm performance, market coverage and debt financing are different between firms whose political connections were withdrawn by the military coup and firms that never have connections with the government.

The aims of Chapter 5 were to explore the impact of connections that were developed by the former Thai Prime Minister's family firms. In this respect, I use a case study to provide detailed information. The findings of the case study analysis are intended to complement the results of large-sample quantitative analyses conducted by previous researchers and in my own study. In addition, the case study allowed for the investigation of the formation of connections developed by the family business group with the government. The performance, market coverage and debt financing of these family firms relative to other firms in the telecommunications industry have been examined using long-term data along the time frame of business development and political revolution.

6.2 Main findings

This section summarises the main findings of the research.

6.2.1 Impact of political revolution on firm performance, market coverage and debt financing

In Chapter 4, as a preliminary analysis, the findings show that, based on the equality test of mean and median values, firms with political connections are significantly different from those without political connections in various aspects. In

all sample periods, politically-connected firms are larger than firms without political connections. The median values of their market share is also much higher in the three sample periods, implying that connected firms gain higher market coverage, or better market position. I find that connected firms invest less than non-connected firms, as measured by the amount of capital expenditure, the ratio of capital expenditure to total assets and the fixed asset ratio. However, there is no difference in profitability, except for the higher return on equity of connected firms in the appointment period. The results show that the fixed asset turnover ratio of connected firms is significantly higher than that of non-connected firms in the pre-election period, but there is no difference in fixed asset turnover ratio in the appointment period, implying that connected firms may have lower efficiency in the appointment period.

Also in Chapter 4, the findings show that although the impact of political connections on firm performance is not significant in the appointment period and the rising year of 2004, such impact is significant in the year of the military coup and after the coup. The performance, measured by industry adjusted return on asset, between connected and non-connected firms is significantly different between 2004 (the rising year of the Thaksin's government) and 2007 (after the military coup event). As a result of the loss of connections, the performance of connected-firms significantly decreases. In addition, the market share of connected firms is higher than that of non-connected firms in the three sample periods. There is no difference in market share between connected and non-connected firms after the gain or the loss of political connections. The results also show that the leverage ratio of connected and non-connected firms is not different in the three sample periods.

6.2.2 The role of connections in the Shinawatra family firms

In Chapter 5, the findings show that the expansion of the Shinawatra family business group benefited from connections over a long period. Thaksin Shinawatra was the controlling family shareholder of the business group. He obtained concessions from the government to operate and expand his business in the telecommunications

sector. Over time, he developed personal relations with influential persons who could help him obtain the licenses.

Thaksin participated in Thai politics from 1994. In particular, since 2001, when Thaksin was appointed Prime Minister of Thailand, since then, he had influenced and managed to change the regulation in the telecommunications industry to benefit his business group. The performance of Thaksin's family firms, measured by both accounting-based performance and stock return performance, has exceeded that of its competitors in the telecommunications industry, especially in the crisis period and over a long period between the minister appointment of Thaksin and the share sale of Shin Corporation to Temasek. However, as a result of the loss of political connections, the performance, measured by the market to book ratio, of the Shinawatra family firms is lower than other firms in the decline-coup period.

In the financial crisis period, it was difficult to access to external funds as a result of financial constraints in the country, but the results show that the Shinawatra family firms have higher leverage ratio than other firms. The presence of connections provides benefits for these family firms to obtain an easier access to debt financing during the crisis. However, Thaksin's family firms have lower leverage ratio, relative to other firms, in the appointment period of Thaksin as Prime Minister. The descriptive statistics show that, in the appointment period, the investment of Shinawatra family firms is significantly higher than that of other firms. Thus, it is possible that Thaksin's family firms obtain an easy access to equity financing, instead of debt financing, or could generate sufficient internal cash flow for their investment in the appointment period.

Overall, this chapter provides additional evidence to support the significance and value of political connections in an emerging market. The controlling shareholder of the Shinawatra family business group played a key role in developing connections with the government to benefit family firms in terms of business expansion, access to external fund and performance.

6.3 Implications and recommendations

The overall results imply that the significance and value of political connections were relatively high in Thailand. In the last decade, connections between firms and the government were obviously developed by business owners, who were involved in the country politics. The political revolution by the military coup in 2006 highlighted adverse consequences of such connections, which caused corruption problems in Thailand. This section outlines implications and recommendations based on the main findings.

Firstly, I find that political connections are significant and are commonly found in Thailand as shown in Chapters 3, 4 and 5. While connected firms may benefit, non-connected firms often bear adverse consequences or the costs of such preferential treatments. Policy makers should be concerned that adverse consequences of connections may continue to exist in Thailand. Such adverse consequences include the development of economy and institutions. In addition, the regulations to prohibit the involvement of politicians in business should be amended to reduce potential conflicts of interests.

Secondly, Chapter 5 provides evidence of the impact of the dominance of family firms on the presence of political connections, which likely results in low efficiency of the connected firms. The efficiency of the Thai family firms should be improved. One way to do this is to increase competition and to lower barriers to entry in regulated industries. It is possible that increased competition may encourage Thai firms to adopt the implementation of best practices, which would lead to improved firm management and efficiency.

Thirdly, the results on the formation and the significance of political connections in Chapters 4 and 5 show that political connections seem to be evidence of the crony-based system. A possible way of tackling the crony aspects is to continue improving governance and control practices, which should be further developed towards more information disclosure. I recommend that disclosure should include information about

government concessions/privileges and information about connections between firms and politicians, especially through related families.

Finally, the results of Chapter 5 show that connections between the former Thai Prime Minister Thaksin Shinawatra's family business group and the government had been developed to benefit the group over a long period. However, the recent event of the overthrow of the former Thai Prime Minister Thaksin Shinawatra indicates that such political connections have widely been perceived, and have already been discouraged and relinquished to a great extent. The findings also reflect that political connections are driven by characteristics of cronyism and have led to unfair competition and inefficient allocation of resources. Thus, I recommend that such connections should not be allowed to recur in the future, and the government should enact stricter regulation to prevent potential conflicts of interest.

6.4 Limitations

Although the results of this study are significant and are consistent with existing evidence, there are potential limitations of this research that are addressed in this section.

Firstly, definitions of connections between firms and the government are based on ownership data that are publicly available. Direct data on social ties (as weaker types of political connections) could not be observed in the databases used in this research. Social relations refer to relations between groups of unrelated people. Social ties between wealthy families in Thailand are prominent. As a result of benefit-sharing, the presence of political connections may be extended to firms, whose major shareholders are closed friends of the country's leader or influential politicians.

Secondly, the results of the case study in Chapter 5 show that firms in the Shinawatra business group have had superior performance over a long period. It is

difficult to establish a comparable benchmark of non-connected firms from a small sample of competitors in the telecommunications industry.

Finally, the presence of political connections is investigated only in non-financial firms listed in the Stock Exchange of Thailand. There are a number of non-listed firms that are owned by influential ministers in the Thaksin's government and the Thai Rak Thai Party's members. The databases used in this research exclude data of non-listed firms.

6.5 Future research

There is room to improve and develop the research into emerging markets. Potential future research could be developed as follows.

Firstly, this study examined the impact of political connections on firm performance, market coverage and debt financing. The impact of political connections on firm efficiency could be investigated to provide a broader view of the effect of political connections in an emerging market. As a preliminary analysis, the descriptive statistics show that connected firms are efficient only before they gain connections with the government. Future research of the effect of political connections on firm efficiency would reflect adverse consequences in terms of inefficient resource allocation and unfair treatments.

Secondly, in this research, the impact of connections on firm performance, market coverage, debt financing is to look at the significance of connections. Politically-connected firms seem to be highly supported by the government. It would be interesting to investigate whether investment of politically-connected firms is highly sensitive to internal cash flow because such firms may be able to generate a high amount of internal cash flow and may not rely on external funds.

Thirdly, the case study of the former Thai Prime Minister's family business group could be further examined. The findings in Chapter 5 show that the leverage ratio of the Shinawatra family firms is lower than that of other firms in the appointment period, while their investment is higher than other firms in the same period. The Shinawatra family firms may rely on their internal fund for their investment, thus it is possible that the investment of these firms is highly sensitive to internal cash flow.

Finally, the descriptive statistics of firms in the telecommunications industry in Chapter 5 show interesting results that the Shinawatra family firms invest more than other firms in the appointment period of Thaksin as Prime Minister. However, these firms have lower efficiency, measured by the fixed asset turnover ratio, in the same period. It is possible that the Shinawatra family firms may be entrenched as a result of favourable treatments from the government and may have unproductive investments, thus having low efficiency. Additional investigation of the efficiency of firms that are owned by the former Prime Minister's family is required.

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Appendix 4.2: Pairwise correlations for three political periods

This table reports pairwise correlation coefficients between variables. The asterisk (*) indicates significance at levels of 5% or better. The figures in parentheses report p-value of each correlation coefficient.

Panel A: Pairwise correlation coefficients between variables for 521 firm-year observations in the pre-election period (1998-2000).

	Industry adjusted ROA	LTD/Total assets	Market share	Ln(total assets)	Total PPE/Total assets
Industry adjusted ROA	1				
LTD/Total assets	-0.0097	1			
	(0.8255)				
Market share	0.0774	0.0523	1		
	(0.0774)	(0.2329)			
Ln(total assets)	0.0709	0.3152 *	0.4506 *	1	
	(0.1060)	(0.0000)	(0.0000)		
Total PPE/Total assets	-0.0179	0.2033 *	-0.0317	-0.0783	1
	(0.6836)	(0.0000)	(0.4703)	(0.0741)	

Panel B: Pairwise correlation coefficients between variables for 745 firm-year observations during the appointment period (2001-2004).

	Industry adjusted ROA	LTD/Total assets	Market share	Ln(total assets)	Total PPE/Total assets
Industry adjusted ROA	1				
LTD/Total assets	-0.193 *	1			
	(0.0000)				
Market share	0.0351	0.0298	1		
	(0.3386)	(0.4163)			
Ln(total assets)	0.0173	0.1713 *	0.4486 *	1	
	(0.6371)	(0.0000)	(0.0000)		
Total PPE/Total assets	-0.0448	0.0687	-0.0241	-0.1163*	1
	(0.2215)	(0.0610)	(0.5115)	(0.0015)	

Panel C: Pairwise correlation coefficients between variables for 627 firm-year observations in the decline-coup period (2005-2007).

	Industry adjusted ROA	LTD/Total assets	Market share	Ln(total assets)	Total PPE/Total assets
Industry adjusted ROA	1				
LTD/Total assets	-0.0676	1			
	(0.0906)				
Market share	0.0512	0.0589	1		
	(0.2003)	(0.1408)			
Ln(total assets)	0.0973 *	0.5003 *	0.361 *	1	
	(0.0148)	(0.0000)	(0.0000)		
Total PPE/Total assets	-0.0105	0.2225 *	-0.051	-0.0262	1
	(0.7926)	(0.0000)	(0.2022)	(0.5118)	

Appendix 4.3: Summary Statistics for three political periods

This table reports summary statistics of firm-year observations in each political period. The unit of financial variables is Million Baht, except variables measured by ratios.

Panel A: Pre-election (1998-2000) for 521 observations

Variable	Mean	Median	Standard Deviation	Minimum	Maximum
Ln(total assets)	7.98	7.73	1.32	6.20	10.84
Total assets	7,703.82	2,278.01	13,030.92	492.95	51,214.38
Total sales	3,992.40	1,534.34	6,572.64	215.10	34,138.12
Market share	0.05	0.02	0.08	0.00	0.61
Long-term debt	1,738.01	128.53	3,746.97	0.00	14,721.51
Total liabilities	5,107.05	1,192.16	8,874.32	80.90	33,705.90
LTD/Total assets	0.15	0.08	0.20	0.00	1.35
LTD/Total liabilities	0.24	0.15	0.26	0.00	1.41
Capital expenditure	221.15	50.16	466.02	2.25	2,606.30
Capex/Total assets	0.04	0.02	0.04	0.00	0.33
Total PPE/Total assets	0.43	0.43	0.23	0.02	0.96
Earning before tax and interest	394.95	74.64	942.98	-216.62	4,013.14
ROA	0.06	0.05	0.10	-0.35	0.48
ROE	0.28	0.10	2.07	-1.96	30.19
Industry adjusted ROA	0.00	-0.01	0.09	-0.35	0.34
Industry adjusted ROE	0.00	-0.05	2.02	-2.04	28.61
Interest expense	292.77	78.49	453.45	0.00	1,536.90
Coverage ratio	488.54	1.26	3,389.33	-1,258.29	28,911.40
Total sales/Total asset	0.81	0.66	0.63	0.00	4.50
Total sales/Total PPE	2.86	1.69	3.86	0.06	34.42

Panel B: Thaksin's PM appointment (2001-2004) for 745 observations

Variable	Mean	Median	Standard Deviation	Minimum	Maximum
Ln(total assets)	8.00	7.72	1.33	6.20	10.84
Total assets	7,873.81	2,262.89	12,950.98	492.95	51,214.38
Total sales	5,378.59	2,057.91	8,506.16	215.10	34,138.12
Market share	0.04	0.02	0.07	0.00	0.59
Long-term debt	1,725.10	131.03	3,773.16	0.00	14,721.51
Total liabilities	4,636.81	1,077.86	8,510.74	80.90	33,705.90
LTD/Total assets	0.16	0.07	0.25	0.00	3.57
LTD/Total liabilities	0.25	0.16	0.26	0.00	0.92
Capital expenditure	357.68	84.00	660.68	2.25	2,606.30
Capex/Total assets	0.06	0.04	0.08	0.00	0.89
Total PPE/Total assets	0.53	0.53	0.25	0.01	0.99
Earning before tax and interest	627.84	213.40	1,035.76	-216.62	4,013.14
ROA	0.09	0.08	0.09	-0.44	1.04
ROE	0.20	0.18	0.59	-1.96	11.90
Industry adjusted ROA	-0.00	-0.01	0.09	-0.54	0.92
Industry adjusted ROE	0.00	-0.00	0.56	-2.10	10.66
Interest expense	175.27	23.44	388.57	0.00	1,536.90
Coverage ratio	2,018.31	7.06	7,171.31	-1,424.50	28,911.40
Total sales/Total asset	0.95	0.84	0.64	0.02	4.07
Total sales/Total PPE	2.69	1.61	3.25	0.08	26.55

Panel C: Declining period of Thaksin's government and the coup event (2005-2007) for 627 observations

Variable	Mean	Median	Standard Deviation	Minimum	Maximum
Ln(total assets)	8.25	8.12	1.30	6.20	10.84
Total assets	9,124.07	3,373.40	13,517.82	492.95	51,214.38
Total sales	6,624.07	2,965.60	9,150.11	215.10	34,138.12
Market share	0.04	0.02	0.06	0.00	0.61
Long-term debt	1,694.13	114.10	3,651.84	0.00	14,721.51
Total liabilities	5,027.29	1,364.00	8,561.64	80.90	33,705.90
LTD/Total assets	0.11	0.05	0.13	0.00	0.57
LTD/Total liabilities	0.21	0.12	0.23	0.00	0.86
Capital expenditure	442.25	107.10	727.27	2.25	2,606.30
Capex/Total assets	0.06	0.04	0.06	0.00	0.45
Total PPE/Total assets	0.38	0.35	0.23	0.01	0.93
Earning before tax and interest	711.48	234.80	1,108.04	-216.62	4,013.14
ROA	0.08	0.08	0.09	-0.37	0.40
ROE	0.14	0.16	0.22	-1.96	0.60
Industry adjusted ROA	-0.00	-0.00	0.09	-0.46	0.32
Industry adjusted ROE	-0.00	0.02	0.21	-2.06	0.49
Interest expense	171.38	32.80	355.06	0.00	1,536.90
Coverage ratio	2,549.81	6.29	8,058.91	-1,083.10	28,911.40
Total sales/Total asset	1.01	0.81	0.79	0.02	5.86
Total sales/Total PPE	5.04	2.38	11.54	0.12	238.93

Appendix 5.1: Restrictions on the involvement of politicians in businesses

The 1997 constitution of Thailand imposes restrictions on members of parliament and cabinet members as follows.

"**Section 110.** A member of the House of Representatives shall not:

(1) hold any position or have any duty in any State agency or State enterprise, or hold a position of member of a local assembly, local administrator or local government official except other political official other than Minister;

(2) receive any concession from the State, a State agency or State enterprise, or become a party to a contract of the nature of economic monopoly with the State, a State agency or State enterprise, or become a partner or shareholder in a partnership or company receiving such concession or becoming a party to the contract of that nature;

(3) receive any special money or benefit from any State agency or State enterprise apart from that given by the State agency or State enterprise to other persons in the ordinary course of business.

The provisions of this section shall not apply in the case where a member of the House of Representatives receives military pensions, gratuities, pensions, annuities or any other form of payment of the same nature, and shall not apply in the case where a member of the House of Representatives accepts or holds a position of committee member of the National Assembly, the House of Representatives or the Senate, or committee member appointed as a qualified member under the provisions of law or committee member appointed in the course of the administration of the State affairs in case he or she holds a position of other political official other than Minister."

"**Section 208.** A Minister shall not hold a position or perform any act provided in section 110, except the position required to be held by the operation of law, and shall not hold any other position in a partnership,

company or any organisation which engages in a business with a view to sharing profits or incomes or be an employee of any person.

Section 209. A Minister shall not be a partner or shareholder of a partnership or a company or retain his or her being a partner or shareholder of a partnership or a company up to the limit as provided by law. In the case where any Minister intends to continue to receive benefits in such cases, such Minister shall inform the President of the National Counter Corruption Commission within thirty days as from the date of the appointment and shall transfer his or her shares in the partnership or company to a juristic person which manages assets for the benefit of other persons as provided by law.

The Minister shall not do any act which, by nature, amounts to the administration or management of shares or affairs of such partnership or company."

THE AUTHOR

I graduated from Thammasat University with a Bachelor's degree in Business Administration (2nd class honours), and from the Asian University of Science and Technology with a Master of Business Administration. I also earned a Master of Research in Finance, with Distinction, from Lancaster University. I got my PhD in Finance from the University of Manchester.

My research experience was initially developed through my post as research assistant to a project entitled "Corporate Governance and Financing in Thailand" sponsored by the Asian Development Bank in 1999. In the same year, I was a trainee at the Office of Capital Market Research and Development, Securities and Exchange Commission of Thailand. After my MBA graduation, I worked for Rabobank International as an industry analyst in the Food and Agribusiness Research and Advisory Services, and between 2000 and 2002, I had several food and agribusiness reviews and industry notes published.

During my PhD study, I visited the Hitotsubashi University in 2004 and Pennsylvania State University (with the support of the Worldwide Universities Network) in 2006 as a short-term scholar. In addition, parts of my PhD thesis have been presented at conferences and seminars, including the World Council for Corporate Governance (2004), the Manchester Business School Doctoral Conference (2004 and 2005), the EFMA Doctoral Seminar (2004), the FMA European Doctoral Seminar (2005), the Manchester Business School Seminar (2006), and the Smeal College of Business Seminar, Pennsylvania State University (2006).

After the completion of the PhD study, I work for Dhurakijpundit University in the Department of Finance, Faculty of Business Administration. My recent publications include a chapter in the "Good Corporate Governance" book, sponsored by the Stock Exchange of Thailand and conference proceedings of "Thailand's Student Loan Fund: An Analysis of Interest Rate Subsidies and Repayment Hardships" and "Do connections affect a firm's investment behaviour? Evidence from the restructuring of Thai financial institution".