Big Business Owners and Politics: Investigating the Economic Incentives of Holding Top Office

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Abstract

This paper investigates the mechanisms that firms use to get state favors. We focus on a less well studied but common mechanism: business owners seeking election to top office. Using Thailand as a research setting, we find that business owners who rely on government concessions or are wealthier are more likely to run for top office. Once in power the market valuation of their firms increases dramatically. Surprisingly, the owners' political power does not change their firms' financing strategies. Instead, we show that business owners in top office use their policy decision powers to implement regulations and public policies favorable to their firms. Such policies hinder not only domestic competitors but also foreign investors. As a result, connected firms are able to seize more market share.

JEL classification: G15; G34; G38; K23

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1 Introduction

Big business owners entering politics is not a new or rare phenomenon. Recent evidence shows many big business owners in top office around the world. Examples of tycoons who served as country leaders include Tung Chee Hwa (Hong Kong), Thaksin Shinawatra (Thailand), Ferenc Gyurcsany (Hungary), Yulia Tymoshenko (Ukraine), Rafiq Hariri (Lebanon), Silvio Berlusconi (Italy), and Paul Martin (Canada)[1]. It is also common that business tycoons hold cabinet positions (e.g., Faccio (2006)). Yet, despite the pervasiveness of business tycoons in politics, very little is known about what drives them to hold top office. This paper provides new empirical evidence on the economic incentives enticing big business owners to seek election to top public office.

Many studies highlight that political connections are instrumental to business success[2]. These studies have documented that business leaders spend resources to establish personal relationships— for example, friendship, shared educational and working experience backgrounds, campaign contributions—with public officials. The political connections are then used to influence government officials to set policies that benefit the tycoons' business empires. All these mechanisms, however, are indirect. In this paper, we show that there is also a mechanism that can be used to get state favors without any intermediation, i.e., businessmen can get elected to top office themselves. We examine two issues: (1) the determinants of big business owners' decision to get elected to top office, and (2) the economic outcomes of holding office. If connected firms do indeed benefit when their owners take office, what are the exact channels used for state favors?

Thailand provides a natural setting to investigate this issue. On January 6, 2001, a group of business tycoons won the general election and formed an administration led by Prime Minister Thaksin Shinawatra. Since this was the first time that this group of tycoons

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

[2] See for example Krueger (1974, 1993), Olson (1982, 2000), De Soto (1989), and Shleifer and Vishny (1993, 1994, Fisman (2001), Morck, Stangeland, and Yeung (2000), Johnson and Mitton (2003), Hellman, Jones, and Kaufmann (2003), Bertrand, Kramarz, Schoar and Thesmar (2005), Morck, Wolfenzon, and Yeung (2005), and Faccio, Masulis, and McConnell (forthcoming).

assumed public office, this event provides a clean experiment which helps ensure that the causality runs from political influence to any private benefits obtained by their connected firms. In addition, Thailand's weak institutions would not be in a position to stop the leaders from engaging in self-dealing activities.

Our analysis framework is based on the private-interest theory of government that hypothesizes that leaders are self motivated (Stigler (1971) and Becker (1983)). We argue that business tycoons who have *de facto* political power have economic incentives to seek *de jure* political power. By holding *de jure* political power, one can use the state to implement discretionary policies to preserve or even expand their economic power (North (1981), Olson (1982, 2000), and Shleifer and Vishny (1998)).

In the first analysis, we examine the characteristics of tycoons who choose to run for top office. We construct a comprehensive data set that traces ownership through the complex web of corporate pyramids to determine the ultimate owner of each firm. In order to identify the country's richest families, we focus on the top 2,000 firms. The probit regression results show that tycoons are more likely to run for top office if a greater fraction of business coming from government concessions, or if they are wealthier.

In the second analysis, we investigate whether the tycoons use public office to benefit their business empires after their rise to power. We find that the market valuation of their connected firms increases by an astonishing amount. The mean ratio of the market to book value of equity of connected firms increased sharply by 242.16%— from 0.918 prior to the tycoons taking office to 3.141 after taking office. Connected firms also outperformed their counterpart non-connected firms by 160%. We find similar results based on the buy-and-hold returns.

In the final analysis, we identify the mechanisms through which economic advantages were given to connected firms. A large number of studies show that political connections affect the firm value through preferential access to financing. However, surprisingly, we find that connected firms did not increase their debt financing. Instead of financing, we show through several event studies that state favors were given via regulation and law changes. These changes of public policies effectively hindered not only domestic competitors but also

foreign investors. Connected firms benefit from tax and license fee cuts, new state contracts, and market entry barriers. Consequently, incumbent connected firms were able to expand their market share at the expense of their peers by about 50%. This evidence suggests that when the firms' owners can take a direct role in the regulatory process—directly protecting their interests—preferential access to bank credit might not be an important political favor.

Taken together, we show that holding public office might be an efficient means of exerting political influence for big business owners whose expected future economic rents are high. Once in top office, they can use their political power directly to make policy decisions that benefit their business empires. This scenario may sound intuitively correct and may also be supported by anecdotal evidence. Empirical evidence has been lacking, however. This is the first paper to provide novel and detailed evidence documenting the above scenario.

We think that our results are not unique to Thailand and could be generalized to other emerging economies that have weak checks and balances. Weak checks and balances allow leaders to use top office to pursue private interests, and may give them an incentive to run for top office. In addition, the context of the study can be generalized to countries with unstable and corrupt governments. When governments change too often it may become costly to maintain close relationships with politicians, and so seeking election to top office may be advantageous. Our analysis can also be generalized to countries in which the leaders have business interests, and hence may use public office to expand their businesses. Such leaders are observed worldwide, e.g., Indonesia, Singapore, Philippines, Malaysia, Taiwan, Cuba, and Equatorial Guinea.

The remainder of the paper is organized as follows. In Section 2, we give an overview of Thai politics. Section 3 describes our data. Section 4 examines the decision of business tycoons for running for public office. Section 5 analyzes whether business tycoons use public office to enrich themselves. In Section 6, we examine the channels through which state favors may be provided. In Section 7, we investigate the outcomes of public policies that were implemented during the rule of the tycoons. Section 8 concludes the paper.

2 Politics in Thailand (1932-2005)

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

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

The first general election under the 1997 constitution was held on January 6, 2001. The Thai Rak Thai Party (TRT), a new party established in 1998 by a group of tycoons, won 248 out of 500 seats of the House of Representatives. By absorbing several smaller parties, the TRT managed to obtain an absolute majority in the lower house. Accordingly, Thaksin Shinawatra, the TRT leader, became prime minister on February 9, 2001. This government is the first civilian government to have completed a full four-year term, and was re-elected in the February 2005 election. This administration is also unique in that the prime minister and many of the cabinet members are either the founders of big business empires or belong to the families who own extensive businesses.

In this paper, we argue that the direction of the causality should run primarily from political power to private benefits obtained by their connected firms, rather than the other

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

way round for the following reasons. Shinawatra's administration assumed effective political power for the first time. Most business tycoons in this administration were also political neophytes running for the election for the first time. Some had entered politics earlier but mostly by being appointed to the cabinets around the mid 1990s. Their appointments were very brief as the cabinets had short-lived tenures as noted earlier. For example, Thaksin Shinawatra was appointed as deputy prime minister for only three months from August to November 1997.

Further, we argue that the political power of Thaksin Shinawatra's administration was shaky for the first half of year due to the serious corruption charge against Prime Minister Shinawatra that began in late 2000. He was accused of concealing assets while serving in top office in 1997, an alleged violation of the 1997 constitution. Then, he was tried by the Constitutional Court. Had he been found guilty, he would have had to step down and been expelled from holding public office for five years. But, he was declared innocent in August 2001. Therefore, we consider August 2001 as the starting point when the Shinawatra's administration attained *effective* political power.

3 Data

3.1 Sample

Our sample includes the top 2,000 largest companies ranked based on the total assets as of the end of year 2000. This dataset includes listed and non listed companies. We obtain the financial data of listed companies from the Worldscope as of October 2004. Stock prices, stock returns, and stock market index data are collected from the Datastream. The Business On Line (BOL) database provides the accounting and ownership information of non listed companies. The BOL has a license from the Ministry of Commerce to reproduce the accounting and ownership information of all registered companies. In order to identify the country's top business tycoons, we construct a database on family trees and ownership.

3.2 Ownership data

We trace the ultimate owners of the firms in the sample by using the standard approach suggested by La Porta, Lopez-de-Silanes, and Shleifer (1999) and Claessens, Djankov, and Lang (2000). We use a number of databases to trace the pyramidal and cross-share ownership that is involved with a chain of companies. We obtain the ownership information from the two databases namely the I-SIM CD-ROM and the SETSMART on-line service that are produced by the Stock Exchange of Thailand (SET). The SET reproduced the data from the company annual reports (FM 56-1) that are filed by companies annually. These ownership databases provide detailed ownership data that include (1) shareholders with stakes of at least 0.5% and (2) a list of a firm's affiliated companies and the shareholdings. Additional ownership data on non listed companies are obtained from the BOL database.

We treat all family members as well as companies ultimately owned by these members as a single shareholder to account for the fact that it is a common practice in Thailand that businesses are closely tied by an extensive family. A shareholder, therefore, includes individuals with the same surname as well as close families that are linked to the family by marriage. Surnames can be used to trace family relationship as family names in Thailand are unique and only people belonging to a family may use that family's name.

We use multiple data sources to identify family trees. The company annual report (FM 56-1) provides the information on the family relationships among the major shareholders as well as the board members. For established families, we were able to trace family relationships using various documents that provide a genealogical diagram of the top business group families. Brooker Group (2001) provides the list of the top 150 families, the affiliated companies, and family relationships. Sappaiboon (2000, 2001) provides detailed information on family trees of the top 100 families. For less established families, however, we were not able to trace the relationship beyond the last name and the family information provided in the company annual report (FM 56-1). Some of our financial data, therefore, may under-estimate the real value held by such families.

4 Determinants of tycoons' decision to run for top office

What motivates tycoons to get elected to high office? We apply the private-interest theory to develop hypotheses regarding the determinants of tycoons' decision to run for top office. First, business tycoons will have the incentive to invest in acquiring the opportunity to hold public office only if the expected cash flows or economic rents to be derived from holding public office are large enough to outweigh the cost of running an election campaign (Morck, Wolfenzon, and Yeung (2005)).

Second, the ability of a business tycoon to run for top office depends on his wealth. Wealth is needed to finance election campaigns which are very costly. In addition, wealth might be associated with the incentive to acquire *de jure* political power so that a tycoon can preserve or even expand his corporate governance power (e.g., Acemoglu, Johnson, and Robinson (2004)). The more corporate assets the tycoon owns, the stronger the incentive to acquire *de jure* political power would be.

4.1 Research methodology

We employ probit models to explain the importance economic rents and wealth. Our analysis in this section focuses on the business group or the family level in order to address the important role of family relationships in business and politics in Thailand. The variables used in the regression model are defined as follow.

The definition of tycoons and their wealth

We define business tycoons based on their wealth which is measured by the total assets of their firms. To identify tycoons, we proceed as follow. First, we trace the ultimate owners of the top 2,000 firms. Second, to obtain a family's wealth, we sum up the total assets of all firms that are ultimately owned at least 10% by the family's members. We consider an extended families as one single family. Third, we rank the families based on their wealth. We arbitrarily cut off the families at the top 100. It should be noted, however, that as our sample includes only the top 2,000 firms, we would underestimate the actual wealth if the families also own smaller companies.

The definition of tycoons running for public office

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

A measure of economic rents

We measure economic rents by concession contracts in regulated utility industries as suggested by prior studies (e.g., Krueger (1974)). We hypothesize that these concessions measure the importance of maintaining political influence to a family. This is due primarily to the nature of the contracts. The operation of the concessions were under strong supervision by the regulators. For example, whenever concession holders wished to implement any major business strategies (e.g., pricing and introducing new products and services), an approval from the regulators was required. As this power is comparable with licensing power, concession holders, therefore, had to negotiate with regulators to get their business plan approved.

Accordingly, we argue that the tycoons who owned these concessions have the incentive to influence the regulatory process to maintain or expand their economic rents. As argued by Noll (2000), a regulatory process is inherently conflictual. Market participants, therefore, seek to protect themselves against unfavorable outcomes that reflect effective political influence by others. By holding public office, one is in a position to more effectively participate in the regulatory process and have their interests taken into account in policy decisions.

We estimate the extent to which the concessions are valuable to a family by the ratio of the revenue generated by concessions held by the family to total revenue of the family's firms as of 2000. Total revenue of a family group is calculated by summing up total revenue of all the family's firms that appear in the top 2,000 companies. The detailed information on concessions and revenue generated by concessions is obtained from the company annual report (FM 56-1).

4.2 Characteristics of the top 100 families

Table 1 reports the basic characteristics of tycoons in our sample. Out of the 100 wealthiest families, there are 13 families who ran for public office; one from each family. We run the univariate tests comparing the characteristics of these 13 tycoon families and the other 87 tycoon families. Basically, the results support our hypothesis. Regarding wealth, the mean total assets of the 13 tycoons families is about USD 4.42 billion which is significantly much larger than the mean total assets of USD 486.46 million held by other tycoon families. Regarding concessions, on average, the 13 tycoons have about 22.9% of their revenues from concessions which is significantly more than the concession revenues of 2.5% of other tycoon families. These two groups of tycoons are similar in terms of leverage and profitability, however.

Table 2 reports the detailed information on concessions held by the tycoon families. Ten families out of 13 families that ran the 2001 election were granted some sorts of concessions. Most of the concessions were in the telecoms industry in which the contracts range from 10-35 years. In most of these families, the group's revenue is highly dependent on the concessions. For example, the share of the concession revenue to total revenue was 94% for the Shinawatra family and 80.5% for the Bodharamik family.

[Insert Table 1 and Table 2 here]

4.3 Probit results

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

Interestingly, while the estimated coefficients on our major variables are strongly significant, the estimated coefficients on other control variables namely group profitability and

leverage ratio turn out to be insignificant at the conventional levels. It should be noted here that we were not be able to control for the industry effects because these tycoons have their businesses in many industries (see Polsiri and Wiwattanakantang (2006)).

As shown in Table 2, the family of Prime Minister Thaksin Shinawatra was wealthier and had a greater share of the group income from the concessions. A concern that may immediately arise is that our results may be due primarily to the prime minister's family. To test this issue, we exclude the Shinawatra family from our sample and rerun the probit regression. The results shown in regression (4) of Table 3 are qualitatively very similar to the regression results based on the full sample. The estimated coefficients on the concession and wealth variables remain strongly significant at the 5% level. Therefore, we conclude that the Shinawatra does not drive our results.

[Insert Table 3 here]

5 Political favors to connected firms

To further substantiate the finding that tycoons had economic incentives for holding top office shown in the previous section, we investigate an *ex post* event, i.e., once tycoons took office, do they use public office to benefit their connected firms? The private-interest hypothesis predicts that by holding *de jure* political power, tycoons can be very influential and can direct public resources to themselves. In addition, tycoons holding office can use state power to implement laws, regulations, and even influence institutional development to lock in corporate governance power. Such policies include barriers to entry, restrictions of international trade and capital flow, limitation of financial development, and weak property rights. Our hypothesis, therefore, predicts that if tycoons-cum-leaders pursue private interests, firms owned by their families should enjoy greater market valuation and market power.

However, if the tycoons do not have economic incentives for holding public office, but instead aim to pursue policies that maximize social welfare (e.g., Stiglitz (1989)), we should not observe superior performance of firms owned by the tycoons over other firms. If the

market expects that the economy in general will be better off by the rule of the tycoons, the stock market reaction should be equally positive for all firms. In contrast, if minority shareholders view that the controlling shareholders will use the firms' resources to achieve their political ideology without any gain to the firms, the market valuation of politically connected firms could be negative or lower than other firms.

In the following analysis, we will measure market value of the firms that are owned by the tycoons who became political leaders, thereafter called *tycoons-cum-leaders* (TCLs).

5.1 Definition of *tycoons-cum-leaders* (TCLs)

We define *tycoons-cum-leaders* (TCLs) as business tycoons who were in the Thaksin Shinawatra's cabinets during 2001-2003[4]. This information is available at the Secretariat of the Cabinet's website (http://www.cabinet.thaigov.go.th). In the following analysis, we compare the market valuation of firms owned by TCLs and non TCLs. We further classify non TCL firms into the two following benchmark firms.

1. *Tycoon firms* are defined as firms that are owned by the 100 wealthiest families (as defined in Section 4.1) who are not TCLs. Arguably, these top tycoons were wealthy and well-connected to the power structure perhaps in a similar manner to TCLs until TCLs took office.

2. *Other firms* are the firms that do not fall into other categories.

We define a firm to be owned by a family if the family owns at least 10% of the shares. As we analyze market valuation, our focus is on listed firms in which the stock prices are available. We exclude the following two sets of firms: (i) 12 financially distressed firms that were not traded during 2001-2003, and (ii) 7 firms that have negative book value of equity. Our final sample consists of 286 non financial firms.

[4]It should be noted that all the tycoons who entered the 2001 general election race were elected. They either ran and won the election outright or were selected from the party lists. There were four persons who were the members of opposition parties. Therefore, they are not considered as TCLs.

5.2 Firm characteristics: TCL firms vs. non TCL firms

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

Regarding the ownership structure, in unreported results, we find that the TCLs own large stakes in the firms. On average, the cash flow rights owned by TCL families are 29.0% in 2000 and 2001, 30.41% in 2002, and 31.60% in 2003. Similarly, a majority of non TCL firms also have concentrated ownership in the hands of the controlling shareholders.

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

[Insert Table 4 and Table 5 here]

5.3 The effect of political power on market valuation

We employ two methodologies for testing the consequences of TCLs holding public office to connected TCL firms to ensure that our results are robust. The first methodology to measure market valuation is the portfolio analysis. The second methodology is the difference-in-differences estimation strategy.

5.3.1 Buy and hold returns (BHRs)

We estimate long-term buy and hold returns (BHRs) earned by investors who buy and hold TCL and the benchmark non TCL firms. This methodology has several advantages. First, it allows us to observe the pattern of the market value accumulation during the period in power.

Second, we can estimate the value of political power conditional on all relevant information that is revealed slowly in time. However, this approach has shortcomings. Estimated returns may reveal information related to firms' prospects besides the value of political connections.

We employ the standard buy and hold returns (BHRs) approach and calculate the BHR of the following three portfolios: TCL firms, *tycoon firms* and *other firms*. The percentage BHR for firm i is

$$BHR_{iT} = \left[\prod_{t=start}^{T} (1 + r_{it}) - 1 \right] \times 100\%,$$

where *start* is the month when the election campaign began (November 2000), T is the end of the 12th, 24th, or 36th month window, r_{it} is the monthly return for firm i in month t. The BHR, therefore, measures the return an investor obtains by investing in a portfolio from the first month of the election campaign (November 2000), and selling it at the end of the 12th, 24th, and 36th month.

In the calculation, we use the monthly stock returns (dividend included). We exclude 14 firms that have the mean 36-month BHR of greater than 1000%.

Table 6A presents the mean equally weighted BHR for the three portfolios: TCL firms, *tycoon firms* and *other firms* at the end of the 12th, 24th, and 36th month. Until the end of the first 12 months, the mean BHR for TCL firms is not statistically significantly different from the mean BHR for the portfolios of *tycoon firms* and *other firms.* From this point onwards, however, TCL firms earn extraordinary returns, and significantly outperform non TCL firms. The mean 24-month BHR for the portfolio of TCL firms is 107.1%, which is significantly (at the 5% level) higher than the mean BHR for the portfolio of *tycoon firms by* 57.3% and *other firms* by 47.5%. The returns at the 36-month holding period on TCL firms is even more remarkable. The mean BHR for TCL firms is 368.1%, while the mean BHR for *tycoon firms* and *other firms* are 149.8% and 146.4%. The mean differences are strongly significant at the 1% level.

In Table 6B, we perform a regression analysis using the mean 12-month, 24-month, and 36-month BHRs as the dependent variables. We introduce a set of variables controlling for firm-specific effects. Size is measured as the logarithm of total assets. Leverage is defined as

the ratio of total debt to total assets. To assure that the results are not driven predominantly by industry membership, we include 11 industry dummy variables in the regressions. The control variables are measured at the end of 2001, 2002, and 2003 in regressions (1), (2), and (3), respectively. We include two dummy variables indicating the firm's ownership in the regressions. First, *TCL* indicates the firm owned by the TCLs. Second, *other firms* indicates the firm that is not owned by the TCLs and other tycoons. So, the benchmark firms here are *tycoon firms*.

The regression results are consistent with the results in Table 6A. The estimated coefficients on TCL dummy is not significant in regression (1), but are strongly significant at the 5% and 1% level in regression (2) and (3), respectively. The results indicate that the mean 24-month BHR and 36-month BHR for the portfolio of TCL firms is 57.3% and 208.1% higher than those of *tycoon firms.*

The results that the mean BHR for TCL firms is not greater than non TCL firms during the first 12 months, but is significantly greater than non TCL firms afterwards support our conjecture in Section 2. The results suggest that the investors believed that the political power of TCLs was shaky during their first year in office due to the corruption allegation. But, once their political power became secure, TCL firms experienced excess returns.

[Insert Table 6A and Table 6B here]

5.3.2 Market-to-book ratio (MB)

In this section, we employ the difference-in-differences estimation strategy. This strategy allows us to test our null hypothesis: unless political power has no value to connected firms, we should expect negligible differences in performance around the period when TCLs took office. We use the ratio of market value of equity to book value of equity (MB) to measure market valuation. As noted in Section 2 and supported by the BHR results, we consider 2001 as the starting year when the TCLs attained *effective* political power. So, we compare an average value of MB of the two years prior to TCLs taking office (2000 and 2001) with

the average value of MB of the two years after TCLs took office (2002 and 2003)[5].

Table 7A reports the results. Prior to TCLs taking office, MBs for the three groups of firms are not statistically different. But, once the TCLs took office, TCL firms experienced an extraordinary increase in average MB ratios: from 0.918 prior to TCLs taking office to 3.141 after taking office – a 242.16 percent gap, significant at the 5% level. The difference-in-differences estimates suggest that TCL firms experienced a sharp increase in MB ratios – 1.574 points more than *tycoon firms*, and 1.691 points more than *other firms*. Economically, this difference is very large indicating about 160% more than the average MB ratios for *tycoon firms* (0.82) and for *other firms* (0.909) prior to TCLs taking office.

In unreported results, we calculated the difference-in-differences analysis using the industry-adjusted MB ratios. The industry-adjusted MB ratio is calculated by taking the difference between the MB ratio for each firm and the median of its industry. We find similar results to those presented in Table 7A which rule out the argument that the industry factors are the driving forces behind the large increases in firm valuation of connected firms. The difference-in-differences estimate suggests that the average industry-adjusted MB ratio for TCL firms increases 1.408 and 1.554 points more than those of *tycoon firms* and *other firms*, respectively. The estimates are statistically significant at the conventional levels.

For further robustness check, we run the *OLS* regressions using similar control variables as in Table 6B. We include one more variable to control for firm growth which is the one-year growth rate in total assets. We create another dummy variable, *AFTER*, which takes a value of 1 in the period after the TCLs took office, zero otherwise. The interaction of *TCL* and *AFTER* is our key variable of interest.

Table 7B presents the regression results that are in line with Table 7A. The estimated coefficients on the interaction variable *TCL*AFTER* are positive and strongly significant in both models at the 5% level, and are close in magnitude to the difference-in-differences estimates. On average, MB ratios for TCL firms increased about 1.5 points relative to *tycoon firms* after the TCLs took office.

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

Interestingly, while the estimated coefficients on *TCL*AFTER* are strongly significant, none of the control variables is statistically significant. This evidence indicates that the political power effect is very strong in explaining the variation in market valuation, and rules out other firm's fundamental effects.

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

[Insert Table 7A and Table 7B here]

5.4 Robustness checks

We conduct a series of robustness tests to check whether our results are mainly driven in a large part by the firms owned by the family of Prime Minister Thaksin Shinawatra. We replicate the market valuation analysis in Section 5.3.1 and 5.3.2, but excluding 4 firms whose largest shareholder is the Shinawatra family. The results are shown in Table 8. Omitting these firms from our sample do not change our main conclusions.

In Panel A, the dependent variable is the market-to-book ratio. The estimated coefficients on the main variables, the interaction variable *TCL*AFTER* remains statistically significant at the 10% level. In Panel B, the dependent variables are the mean 12-month, 24-month, and 36-month BHRs. Consistentent with our main findings, the coefficient on the *TCL* dummy is not significant in regression (1). In regressions (2) and (3), TCL firms significantly outperform other firms at the 10% and 1% levels, respectively. These analyses suggest that other connected firms also benefit from political power. In other words, our results are not due to only the Shinawatra's firms.

[Insert Table 8 here]

6 Mechanisms used to channel political favors

The next question is via which mechanisms political favors are more likely to be channelled. In the first analysis, we investigate the effect of political connections on financing deci-

sions. Next, we show that regulations were changed to channel a number of state favors to connected firms.

6.1 Preferential access to debt financing

An extensive literature suggests that firms often maintain close relationships with politicians for access to bank credit[6]. Financing can be channelled to politically connected firms in various forms, e.g., bank debt, long-term debt, debt with preferential terms, and government's bailouts. Following this literature, we test whether political connections enable TCL firms to borrow more. We employ methodology similar to that used in Table 7B.

We use alternative measures of debt financing. We use two variables to analyze the effect on the overall debt financing structure: the ratio of total debt to total assets and the ratio of total debt to total assets plus accounts payable to total assets. To investigate the effect on the debt maturity structure, we use two proxies: the ratio of long-term debt to total assets and the ratio of long term debt to total debt. These debt variables can be considered as bank loans as non bank loans are rarely used by the firms in our sample.

In the regressions, consistent with the literature, we include a number of variables to control for the effect of firm characteristics on corporate financial policy namely size, asset tangibility, profitability, and industries. For robustness checks, we run two sets of regressions. The first set is based on the full sample. In the second set of regressions, we exclude the four firms that are owned by the family of Prime Minister Thaksin Shinawatra.

Table 9 presents the regression results using the mean values of the dependent and independent variables. Surprisingly, inconsistent with the literature, we do not find any positive effect of political connections on corporate debt financing. None of the estimated coefficients on the variable of our interest, the interaction variable TCL^*AFTER, are statistically significant at the conventional levels. The results are robust to using alternative measures of debt ratio. Also, our results remain the same when the firms owned by Shinawatra's family were excluded. The insignificant results on TCL^*AFTER indicate that political connections

[6] See e.g., La Porta, Lopez-de-Silanes, and Zamarripa (2003), Johnson and Mitton (2003), Sapienza (2004), Dinc (2005), Khwaja and Mian (2005), Charumilind, Kali, and Wiwattanakantang (2006), Leuz and Oberholzer-Gee (2006), Faccio, Masulis, and McConnell (forthcoming), and Fan, Rui, and Zhao (2006).

never lead to a statistically increase in any kinds of corporate debt financing.

The estimated coefficients on the control variables, however, are strongly significant and have expected signs as suggested by the finance literature. The results indicate that the firm's fundamental factors are accountable to cross-sectional differences and over-time changes in the corporate financing policy.

If direct financing is not an important channel, then in which forms were political favors given to the connected firms? In the next section, we will identify a number of channels through which political favors operate.

[Insert Table 9 here]

6.2 Implementation of favorable public policies

In this section, we examine whether the TCL government used economic policy tools to preserve or improve their business opportunities. Our hypothesis is that big businessmen in top office can use the position to make personally favorable policy decisions. To measure the nature of state favors bestowed to connected firms, we use the event study approach. We search for the announcements and news on government decisions that appear to be to TCL firms' advantage. As our results in Section 3 show, many tycoons running for top office held government concessions. We are particularly interested in the events that are related to the modification of the regulations, laws, and rules of the game in regulated industries.

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

6.2.1 Event study analysis of changes in regulations and public policies

In the following analysis, we focus on the following four events.

Event 1: Implementation of foreign entry barriers

On November 9, 2001, the Telecommunications Business Act was passed (Office of the Council of State). The law limits foreign ownership in the telecommunications industry to a maximum of 25%. The foreign ownership limitation was inserted as a clause by the

Senate while they were passing the bill in parliament (Phongpaichit and Baker (2004)). The enactment of this law, therefore, was not expected. This law effectively puts a barrier to entry to the industry on foreign companies who have superior technology. Only a few TCL firms who did not have foreign partners were able to meet this ownership limit.

Event 2: Modification of the concession contracts

On January 21, 2003, the government announced a proposal to modify the royalty payment scheme of the telecommunications concessions (Nation, January 21, 2003). The bill was finally passed on January 29, 2003. The former revenue sharing scheme payment to the government (at about 5-30% of the concessions' revenue), was replaced by a special excise duty. Under the new approach, concession holders pay an excise duty at the flat rate of 10% of the revenue to the Ministry of Finance, and the balance of the original revenue sharing to the licensor agencies.

The excise tax scheme can be considered as a barrier to entry to the advantage of the incumbent firms. By 2003, the telecoms industry was liberalized. New businesses, therefore, could enter this industry without paying any royalty. On the other hand, the incumbents were in a worse position because they have been tied up by the concession contracts granted in the 1990s. So, by imposing this excise tax scheme, new businesses incur 10% excise tax while incumbents do not incur any marginal costs.

Event 3: Concession fee cuts and granting of new concessions

On April 10, 2002, an executive of a TCL company, Independent Television (iTV), announced at a media meeting that the government would soon reduce license concession fees paid by the company (Nation, April 10, 2002). The company was indeed granted permission by an arbitration panel on January 29, 2004. The arbitrator's decision lowered the concession fees from Bt 1 billion (USD 38.33 million) to Bt 230 million (USD 6 million) a year over 30 years. In addition, the company was also granted a 50% increase in its entertainment programs; and allowed to air these shows during prime time spots. This new concession might benefit the company about Bt 18 billion (USD 466 million) (Financial Times, February 3, 2005)).

After receiving these new concession contracts, the company's financial position has

improved significantly. The company, which was set up in 1995, posted its first-ever profit of Bt 24 million in the first quarter of 2004.

Event 4: Tax exemption

On November 20, 2003, the Board of Investment (BOI) announced that Shin Satellite, a TCL firm owned by Prime Minister Thaksin Shinawatra's family, was awarded an eight-year corporate tax holiday on profits from foreign sales of satellites (Nation, November 21, 2003). This award is likely to benefit the company about Bt 16.5 billion (USD 427 million) (Financial Times, February 3, 2005)).

Seven out of the 18 members of the BOI board that approved the award had close relationships with Prime Minister Shinawatra. All seven were the executives of the Thai Rak Thai party, which is the party led by the Prime Minister. Four out of the seven members were also in the Shinawatra's cabinet (http://www.boi.go.th).

6.2.2 Results of the event studies

We use the standard event study approach following Brown and Warner (1985) to estimate the market-adjusted CARs around the event dates. If the principal beneficiaries appear to be the TCLs themselves, the share prices of TCL firms should increase in reaction to the news announcement. We estimate the market model parameters by using 200-trading day windows (-220, -21) preceding the event date[7]. Then, we calculate the cumulative abnormal return for the three-day period around the event dates (CARs (-1, +1)). The event date is defined as the first trading day after the news became public.

Table 10A shows the results. We bring out the firms that are considered as the principal beneficiaries of the new policies and regulations. For event 1 and 2, we consider the TCL firms that were operating in the telecommunications industry as the principal beneficiaries. The results are startling. The principal beneficiary firms experienced positive and relatively high abnormal returns around both events. The average CARs for these TCL telecoms firms are about 3.04% for the event 1; and 4.65% for the event 2.

[7] It should be noted that data limitations on a price history prevent calculation of historical betas for a few firms in our sample. These firms were newly listed and hence have the stock price data shorter than 200-trading days.

Similar results are observed for events 3 and 4 in which the principal beneficiary firms are iTV and Shin Satellite, respectively. While the CARs for iTV are about 7.19%, the CARs for Shin Satellite are astonishingly high at 12.82%.

We also find that not only the principal beneficiary firms experienced high CARs around the event dates, other TCL firms also experienced positive abnormal returns. The average CARs of all TCL firms are 2.29%, 3.02%, 3.30%, and 1.79% associated with events 1 to 4, respectively.

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

For robustness tests, we run *OLS* regressions controlling for firm size, leverage, and industry effects. The regressions results in Table 10B are qualitatively and quantitatively similar to the univariate tests. The estimated coefficients on the TCL dummy are positive and strongly significant at the 5% level for all events.

Our results suggest that the market appears to view that the state can be used by the leaders to implement discretionary policies to favor their connected firms.

[Insert Table 10A and Table 10B here]

7 The effect on market share

In this section, we investigate the economic outcome of political power. We test whether the implementation of such policies is aimed at maximizing profits of TCL firms or to address market failures (see also Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2002)). If the policies create rents for the incumbent TCL firms, by safe-guarding their businesses and keeping out their opponents, then market distortions should be observed. TCL firms should be able to expand and seize more market share after the owners took office at the expenses

of their peers.

To conduct the analysis, we use the same methodology as in Section 5.3.2. The market share is defined as the firm's sales divided by total industry sales following Blundell, Griffith, and Van Reenen (1999). A firm's industry was defined as its principal operating industry at the three-digit level.

Table 11A shows that before the TCLs took office, the average market share during 2000-2001 for TCL firms is not statistically distinguishable from that of non TCL firms. But, after TCLs took office, TCL firms experienced a sharp increase in market share from 0.261 to 0.383 which is about 12.2 percentage points. In other words, on average TCL firms gained a market share of 46.74%. While there is no change in the market share of *tycoon firms*, *other firms* have lost the market share from 28.5% to 23.9%, which is about 4.6 percentage points.

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

Table 11B shows the regression results controlling for the effects of profitability and leverage. Inclusion of the control variables leaves our key coefficients intact.

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

[Insert Table 11A and Table 11B here]

8 Conclusion

This paper is the first study that investigates the economic incentives of big business owners to seek for holding public office. We find a positive relationship between business tycoons holding concession contracts and their decisions to run public office. This suggests that holding public office might be a mechanism for rent extraction. A further investigation shows that this was probably the case. After the tycoons took office, their firms achieved greater market valuation than other firms. We provide some direct evidence that weak institutions in Thailand allow the leaders to channel various forms of government supports to firms owned by their families. These policies appear to have side effects that further distort the market structure. Incumbent connected firms have expanded the market power at the expense of their peers. Overall, the evidence suggests that the political power of the firms' owners accounted for the extraordinary incremental gain in market valuation and market share. The hypothesis that tycoons do not have any economic incentives for holding public office is ruled out.

Our results suggest that public office can be used by business tycoons to expand their corporate control. Our findings are consistent with the literature that public policy and its outcomes are endogenous and determined by the corporate elites who hold political power (North (1981), Olson (1982, 2000), Shleifer and Vishny (1998), Rajan and Zingales (2003), and Stulz (2005)).

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

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Table 1
Characteristics of the tycoon's families

The table reports characteristics of the top 100 wealthiest families in Thailand. All variables are measured at the family level as of 2000 year-end. The sample firms include the top 2,000 companies in Thailand. A tycoon's firm is the firm in which the family owns 10% or more shares. A tycoon running for top office is defined as the tycoon who ran for the January 2001 general election. Log (total assets) is the logarithm of book value of total assets. Concession revenue/total revenue is the ratio of concession revenue to total revenue. Leverage is the ratio of total debt to total assets. Profitability is the ratio of earning before interest and taxes to total assets. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

		Tycoons running for top office (N=13)	Other tycoons (N=87)	*t* -statistics (*t* -test)	*z* -statistics (Wilcoxon test)
Total assets (million USD)	Mean	4,418.46	486.46	3.88***	2.18**
	[Median]	[267.03]	[105.50]		
Log (total assets)	Mean	4.391	3.829	3.07***	2.18**
	[Median]	[4.061]	[3.658]		
Concession revenue/total revenue	Mean	0.229	0.025	4.01***	4.33***
	[Median]	[0.000]	[0.000]		
Profitability	Mean	0.024	0.028	-0.07	-0.36
	[Median]	[0.042]	[0.050]		
Leverage	Mean	0.395	0.496	-1.03	-1.02
	[Median]	[0.380]	[0.470]		

Table 2
Concessions held by the tycoon's families

The table reports concession contracts that were held by tycoons as of 2000 year-end. The data are obtained from the companies' annual reports.

Family name	Company	Description of the concession	Operating period	Total number of firms owned by the family	Total group revenue	Revenue structure			
						Revenue from concessions		Revenue from other businesses	
					million USD	million USD	% of total group	million USD	% of total group
BENCHARONGKUL	TOTAL ACCESS COMMU.	800 and 1800 MHz mobile phone	1991-2018	28	712.14	695.54	97.7%	16.60	2.3%
	UNITED COMMUNICATION	Trunked mobile system	1993-2008						
	UNITED COMMUNICATION	Mobile data communication services	1994-2014						
	UNITED COMMUNICATION	Cable television services	1996-2021						
	UNITED COMMUNICATION	Broadband transmission services	1998-2023						
BODHARAMIK	TT & T	1.5 million fixed line in provinces	1992-2018	20	284.14	228.69	80.5%	55.45	19.5%
	JASMIN INTERNATIONAL	TDMA and ISBN satellite network	1990-2005						
	JASMIN INTERNATIONAL	Submarine optical fibre cable system	1991-2012						
	JASMIN INTERNATIONAL	Data satellite transmission system	1998-2020						
	JASMIN INTERNATIONAL	Internet services	n/a						
JIARAVANONT	TELECOMASIA CORP.	2.6 million fixed line in the Bangkok area	1991-2016	69	3,047.32	532.70	17.5%	2,514.62	82.5%
	UNITED BROADCASTING	Subscription television services	1989-2014						
	UNITED BROADCASTING	Hybrid coaxial cable network television	1994-2019						
KANJANAPAS	TANAYONG	BTS Bangkok sky train	1999-2029	10	287.13	42.97	15.0%	244.16	85.0%
MALEENONT	BEC WORLD	Television broadcasting	1988-2020	27	150.08	110.58	73.7%	39.50	26.3%
SHINAWATRA	ADVANCED INFO SERVICE	900 MHz and GSM mobile telephone	1990-2015	24	1,078.71	1,013.97	94.0%	64.74	6.0%
	ADVANCED INFO SERVICE	Digital display paging services	1990-2005						
	ADVANCED INFO SERVICE	Online data communication services	1997-2022						
	SHIN SATELLITE	Commercial satellite operations	1991-2021						
	SHIN SATELLITE	Internet services	1994-2007						
	SHIN SATELLITE	Mobile telephone network in Cambodia	1993-2028						
	ITV	Television broadcasting (UHF)	1995-2025						
	SHIN CORPORATION	Telephone directory publishing	1991-2006						
	SHIN CORPORATION	1800 MHz mobile telephone	1998-2013						

Family name	Company	Description of the concession	Operating period	Total number of firms of the family	Total group revenue	Revenue structure			
						Revenue from concessions		Revenue from other businesses	
					million USD	million USD	% of total group	million USD	% of total group
TEEPSUWAN	LANNA LIGNITE	Coal mining	n/a	16	394.91	52.30	13.2%	342.61	86.8%
	LANNA LIGNITE	Power generation	n/a						
TRIVISVAVET	BANGKOK EXPRESSWAY	Expressway Phase 2	1990-2020	25	277.89	128.34	46.2%	149.56	53.8%
VILAILUCK	SAMART TELCOMS	Satellite communication network	1995-2017	29	130.21	60.47	46.4%	69.74	53.6%
	SAMART TELCOMS	Satellite phone services in rural area	1996-2006						
	SAMART CORPORATION	Paging services	n/a						
	SAMART CORPORATION	Internet services	1996-2006						
	SAMART CORPORATION	NMT 900 mobile telephone in Cambodia	1992-2027						
WONGKUSOLKIT	BANPU	Coal and minerals mining	1974-n/a	48	292.74	75.44	25.8%	217.30	74.2%
	BANPU	Coal and minerals mining in Indonesia	1994-2024						
	BANPU	Port operation	1996-2021						
	BANPU	Power generation	2000-2020						
	BANPU	Power generation in Vietnam	1999-2029						

Table 3
Determinants of tycoons' choice of running for top office

The table reports probit estimates of the tycoons' choice of running for top office. The dependent variable is a dummy variable that takes on a value of 1 if at least one person from a family ran for the January 2001 general election, and zero otherwise. The sample includes the top 100 wealthiest families in Thailand. All variables are measured at the family level as of 2000 year-end. Concession revenue/total revenue is the ratio of concession revenue to total revenue. Wealth is the logarithm of total assets. Leverage is the ratio of total debt to total assets. Profitability is the ratio of earning before interest and taxes to total assets. Numbers in parentheses are *z*-statistics from heteroskedasticity-robust standard errors with clustering at the family level. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	Full sample			Excluding the Shinawatra family
	(1)	(2)	(3)	(4)
Concession revenue/ total revenue	2.152***		1.957**	1.797**
	(2.65)		(2.46)	(2.04)
Wealth		0.621***	0.491**	0.484**
		(2.67)	(2.00)	(1.96)
Profitability			-1.334	-1.305
			(-1.47)	(-1.44)
Leverage			-1.016	-0.986
			(-1.34)	(-1.30)
Constant	-1.309***	-3.631***	-2.767***	-2.749***
	(-7.40)	(-3.70)	(-2.87)	(-2.84)
Number of observations	100	100	100	99
Pseudo R^2	0.119	0.094	0.202	0.161
Log pseudo-likelihood	-34.04	-35.01	-30.84	-30.66

Table 4
Distribution of sample firms by industry

The table reports the distribution of the sample firms. *TCL firms* are the firms owned by the tycoons who are in top office. *Tycoon firms* are the firms owned by the tycoons who are not TCLs. *Other firms* are not *TCL firms* and *tycoon firms*. The industries are defined following Campbell (1996).

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

Table 5
Firm characteristics as of 2000

The table reports summary statistics of the sample firms as of 2000 year-end. The sample firms include non-financial firms listed in the Stock Exchange of Thailand. *TCL firms* are the firms owned by the tycoons who are in top office. *Tycoon firms* are the firms owned by the tycoons who are not TCLs. *Other firms* are not *TCL firms* and *tycoon firms*. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

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

Table 6A
The effect of political power on buy-and-hold returns

The table reports the mean equally weighted buy-and-hold returns (BHRs). BHR is the holding period return from the starting date of the January 2001 general election campaign (November 2000) until the 12-month, 24-month, and 36-month anniversary. *TCL firms* are the firms owned by the tycoons who are in top office. *Tycoon firms* are the firms owned by the tycoons who are not TCLs. *Other firms* are not *TCL firms* and *tycoon firms*. Numbers in parentheses are bootstrapped skewness-adjusted *t*-statistics. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	12-month BHR	24-month BHR	36-month BHR
TCL firms	0.414	1.071	3.681
Tycoon firms	0.184	0.498	1.498
Other firms	0.208	0.596	1.464
Difference	0.230	0.573**	2.183***
[TCL firms - Tycoon firms]	(1.31)	(2.23)	(3.46)
Difference	0.206	0.475*	2.217***
[TCL firms - Other firms]	(1.32)	(1.80)	(3.79)

Table 6B
Buy-and-hold returns: regression analysis

The table reports coefficient estimates from OLS regressions. The dependent variable is the buy-and-hold returns (BHRs). BHR is the holding period return from the starting date of the January 2001 general election campaign (November 2000) until the 12-month, 24-month, and 36-month anniversary. *TCL* is a dummy variable that takes on a value of 1 if the firm is owned by the tycoons who are in top office, and zero otherwise. *Other firms* is a dummy variable that takes on a value of 1 if the firm is not a TCL firm and a tycoon firm, and zero otherwise. Size is the logarithm of total assets. Leverage is the ratio of total debt to total assets. Numbers in parentheses are *t*-statistics from heteroskedasticity-robust standard errors with clustering at the firm level. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	12-month BHR	24-month BHR	36-month BHR
	(1)	(2)	(3)
TCL	0.310	0.573**	2.081***
	(1.36)	(2.39)	(4.06)
Other firms	-0.046	-0.028	-0.357
	(-0.58)	(-0.19)	(-1.16)
Size	-0.079	-0.094	-0.031
	(-1.29)	(-0.78)	(-0.12)
Leverage	0.016	-0.236	-0.376
	(0.09)	(-1.25)	(-0.93)
Constant	0.752*	1.272*	2.747*
	(1.74)	(1.72)	(1.73)
Industry dummies	Yes	Yes	Yes
Number of observations	224	224	224
Adjusted R^2	0.208	0.173	0.233

Table 7A
The effect of political power on market-to-book ratio

The table reports the difference-in-differences estimates of political power on market-to-book ratio (MB). MB is defined as the ratio of the market value to the book value of equity. *TCL firms* are the firms owned by the tycoons who are in top office. *Tycoon firms* are the firms owned by the tycoons who are not TCLs. *Other firms* are not *TCL firms* and *tycoon firms*. *Before* refers to the period before the TCLs took office (2000 and 2001). *After* refers to the period after the TCLs took office (2002 and 2003). Numbers in parentheses are *t*-statistics from heteroskedasticity-robust standard errors with clustering at the firm level. Wilcoxon test *z*-statisitics is for a Wilcoxon rank-sum test on the difference in medians. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

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

Table 7B
Market-to-book ratio: regression analysis

The table reports the coefficient estimates from OLS regressions. The dependent variable is the market-to-book ratio (MB). MB is defined as the ratio of the market value to the book value of equity. *TCL* is a dummy variable that takes on a value of 1 if the firm is owned by the tycoons who are in top office, and zero otherwise. *Other firms* is a dummy variable that takes on a value of 1 if the firm is not a TCL firm and a tycoon firm, and zero otherwise. *AFTER* is a dummy variable that takes on a value of 1 in the period after the TCLs took office, and zero otherwise. Size is the logarithm of total assets. Leverage is the ratio of total debt to total assets. Firm growth is the one-year growth rate in total assets. Numbers in parentheses are *t*-stastistics from heteroskedasticity-robust standard errors with clustering at the firm level. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)
TCL*AFTER	1.531**	1.552**
	(2.09)	(1.99)
TCL	-0.002	-0.002
	(-0.01)	(-0.01)
AFTER	0.546***	0.522***
	(3.85)	(4.06)
Other firms	0.234	0.209
	(1.25)	(1.14)
Size		-0.111
		(-0.80)
Leverage		0.704
		(1.55)
Firm growth		0.005
		(1.21)
Constant	1.199***	1.337***
	(6.86)	(2.96)
Industry dummies	Yes	Yes
Number of observations	462	462
Adjusted R^2	0.113	0.122

Table 8
Robustness of the results

The table reports coefficent estmates from OLS regressions based on the sample firms without the Shinawatra's firms. Panel A reports regression results on market-to-book ratio (MB). The dependent and independent variables in Panel A are as defined in Table 6B. Panel B reports regression results on buy-and-hold returns (BHRs). BHR is the holding period return from the starting date of the January 2001 election campaign (November 2000) until the 12-month, 24-month, and 36-month anniversary. The dependent and independent variables in Panel B are as defined in Table 7B. Numbers in parentheses are *t*-statistics from heteroskedasticity-robust standard errors with clustering at the firm level. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Market-to-book ratio	
	MB
TCL*AFTER	1.104*
	(1.66)
TCL	0.253
	(0.77)
AFTER	0.513***
	(3.98)
Other firms	0.226
	(1.22)
Size	-0.074
	(-0.57)
Leverage	0.676
	(1.46)
Firm growth	0.003
	(0.74)
Constant	1.247***
	(2.98)
Industry dummies	Yes
Number of observations	454
Adjusted R^2	0.106

Panel B: Buy-and-hold returns			
	12-month BHR	24-month BHR	36-month BHR
	(1)	(2)	(3)
TCL	0.239	0.478*	1.594***
	(0.88)	(1.84)	(3.18)
Other firms	-0.045	-0.021	-0.360
	(-0.56)	(-0.15)	(-1.29)
Size	-0.072	-0.058	0.094
	(-1.11)	(-0.46)	(0.39)
Leverage	0.026	-0.201	-0.232
	(0.15)	(-1.06)	(-0.63)
Constant	0.717	1.098	2.168
	(1.61)	(1.45)	(1.49)
Industry dummies	Yes	Yes	Yes
Number of observations	220	220	220
Adjusted R^2	0.206	0.135	0.173

Table 9
The effect of political power on debt financing

The table reports coefficient estimates from OLS regressions of political power on debt financing. The dependent variables are leverage and debt maturity. Columns (1) – (4) report regression results based on the full sample. Columns (5) – (8) report regression results based on the sample firms without the Shinawatra's firms. *TCL* is a dummy variable that takes on a value of 1 if the firm is owned by the tycoons who are in top office, and zero otherwise. *Other firms* is a dummy variable that takes on a value of 1 if the firm is not a TCL firm and a tycoon firm, and zero otherwise. *AFTER* is a dummy variable that takes on a value of 1 in the period after the TCLs took office, and zero otherwise. Size is the logarithm of total assets. Asset tangibility is the ratio of net fixed assets to total assets. Profitability is the ratio of earnings before interest and taxes to total assets. Firm growth is the one-year growth rate in total assets. Numbers in parentheses are *t*-stastistics from heteroskedasticity-robust standard errors with clustering at the firm level. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	Full sample				Excluding the Shinawatra's firms			
	Total debt/total assets	(Total debt +accounts payable)/total assets	Long-term debt/total assets	Long-term debt/total debt	Total debt/total assets	(Total debt +accounts payable)/total assets	Long-term debt/total assets	Long-term debt/total debt
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
TCL*AFTER	-0.035	-0.043	-0.013	0.054	-0.054	-0.052	-0.026	0.045
	(-0.76)	(-0.84)	(-0.38)	(0.93)	(-1.13)	(-1.01)	(-0.79)	(0.83)
TCL	-0.051	-0.047	0.037	0.121	-0.056	-0.040	0.036	0.120
	(-0.72)	(-0.63)	(0.65)	(1.45)	(-0.69)	(-0.46)	(0.57)	(1.39)
AFTER	-0.031***	-0.037***	-0.027***	-0.019	-0.031***	-0.038***	-0.027***	-0.019
	(-2.78)	(-3.55)	(-3.64)	(-1.08)	(-2.78)	(-3.59)	(-3.64)	(-1.08)
Other firms	-0.011	-0.019	0.016	0.055	-0.012	-0.020	0.015	0.054
	(-0.30)	(-0.50)	(0.77)	(1.55)	(-0.33)	(-0.53)	(0.74)	(1.54)
Size	0.115***	0.094***	0.108***	0.173***	0.114***	0.094***	0.109***	0.175***
	(4.09)	(3.19)	(5.64)	(5.16)	(3.89)	(3.07)	(5.55)	(5.12)
Asset tangibility	0.182***	0.129*	0.135***	0.267***	0.190***	0.139*	0.140***	0.271***
	(2.60)	(1.65)	(2.68)	(3.21)	(2.69)	(1.75)	(2.75)	(3.23)
Profitability	-0.773***	-0.840***	-0.356***	-0.465***	-0.792***	-0.867***	-0.362***	-0.465***
	(-5.27)	(-5.40)	(-3.70)	(-2.80)	(-5.26)	(-5.43)	(-3.68)	(-2.72)
Firm growth	-0.0002	0.001	-0.0003	0.0002	-0.0001	0.001	-0.0003	0.0002
	(-0.20)	(1.18)	(-0.65)	(0.21)	(-0.13)	(1.31)	(-0.57)	(0.23)
Constant	-0.140	0.025	-0.244***	-0.155	-0.137	0.024	-0.250	-0.166
	(-1.24)	(0.17)	(-3.16)	(-1.08)	(-1.18)	(0.16)	(-3.20)	(-1.15)
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	462	462	462	462	454	454	454	454
Adjusted R^2	0.155	0.133	0.293	0.328	0.157	0.137	0.291	0.318

Table 10A
Market reactions around the annoucements of favorable public policies

The table reports the statistics of the cumulative market-adjusted abnormal returns (CARs) around the announcements of favorable public policies. CARs are based on the event window (-1,+1). The event date is defined as the first trading day after the announcement date. Principal beneficiary *TCL firms* are the *TCL firms* that directly benefit from the implementation of the favorable public policies. *TCL firms* are the firms that are owned by the tycoons who are in top office. *Non TCL firms* are the firms that are not *TCL firms*. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Event date	Event description		Principal beneficiary TCL firms	Full sample				
				TCL firms	Non TCL firms	Difference [TCL firms - Non TCL firms]	*t*-statistics (*t*-test)	*z*-statistics (Wilcoxon test)
November 9, 2001 (Event 1)	The Telecommunications Business Act was passed to limit foreign ownership at 25%.	Mean	3.037	2.285	-0.193	2.478	2.05**	3.02***
		[Median]	[3.070]	[2.660]	[-0.730]	[3.390]		
January 21, 2003 (Event 2)	A bill to introduce 10% tax on new entrants to the telecoms industry was passed.	Mean	4.647	3.022	-1.040	4.062	2.69***	2.19**
		[Median]	[3.540]	[0.490]	[-0.705]	[1.195]		
April 10, 2002 (Event 3)	A TCL firm was granted a new concession contract and the concession fees were reduced.	Mean	7.190	3.301	-0.866	3.950	3.05***	2.00**
		[Median]	[7.190]	[0.470]	[-1.110]	[1.395]		
November 20, 2003 (Event 4)	8-year tax holiday was granted to a TCL firm.	Mean	12.820	1.790	-2.299	4.089	2.83**	1.76*
		[Median]	[12.820]	[0.160]	[-1.610]	[1.770]		

Table 10B
Event studies: regression analysis

The table reports coefficient estimates from OLS regressions. The dependent variable is the cumulative market-adjusted abnormal returns (CARs). CARs are based on the event window (-1,+1). The event date is defined as the first trading day after the announcement date. *TCL* is a dummy variable that takes on a value of 1 if the firm is owned by the tycoons who are in top office, and zero otherwise. Size is the logarithm of total assets. Leverage is the ratio of total debt to total assets. Numbers in parentheses are *t*-statistics from heteroskedasticity-robust standard errors with clustering at the firm level. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	Event 1	Event 2	Event 3	Event 4
	(1)	(2)	(3)	(4)
TCL	0.029***	0.037**	0.038***	0.036**
	(3.35)	(2.41)	(2.81)	(2.42)
Size	-0.007	0.006	0.004	0.008
	(-1.00)	(0.77)	(0.61)	(1.23)
Leverage	0.024	0.011	0.003	0.009
	(1.26)	(0.71)	(0.22)	(0.65)
Constant	0.015	-0.033	-0.022	-0.054**
	(0.62)	(-1.37)	(-1.08)	(-2.37)
Industry dummies	Yes	Yes	Yes	Yes
Number of observations	162	227	224	241
Adjusted R^2	0.041	0.025	0.03	0.041

Table 11A
The effect of political power on market share

The table reports the difference-in-differences estimates of political power on market share. Market share is defined as the firm's sales divided by total industry sales. A firm's industry is defined as its principal operating industry at the three-digit SIC code level. *TCL firms* are the firms owned by the tycoons who are in top office. *Tycoon firms* are the firms owned by the tycoons who are not TCLs. *Other firms* are not *TCL firms* and *tycoon firms*. *Before* refers to the period before the TCLs took office (2000 and 2001). *After* refers to the period after the TCLs took office (2002 and 2003). Numbers in parentheses are *t*-statistics from heteroskedasticity-robust standard errors with clustering at the firm level. Wilcoxon test *z*-statisitics is for a Wilcoxon rank-sum test on the difference in medians. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	Before (Avg.2000-2001) (I)	After (Avg.2002-2003) (II)	**Difference [After-Before]** (III) = (II) - (I)	*z* -statistics (Wilcoxon test)
TCL firms	0.261	0.383	0.122*	
			(1.82)	
Tycoon firms	0.304	0.298	-0.006	
			(-0.39)	
Other firms	0.285	0.239	-0.046**	
			(-2.65)	
Difference	-0.043	0.085	**0.128****	0.89
[TCL firms - Tycoon firms]	(-0.44)	(0.88)	**(1.96)**	
Difference	-0.024	0.144	**0.168****	1.13
[TCL firms - Other firms]	(-0.24)	(1.49)	**(2.51)**	

Table 11B
Market share: regression analysis

The table reports coefficient estimates from OLS regressions. The dependent variable is the market share. Market share is defined as the firm's sales divided by total industry sales. A firm's industry is defined as its principal operating industry at the three-digit SIC code level. *TCL* is a dummy variable that takes on a value of 1 if the firm is owned by the tycoons who are in top office, and zero otherwise. *Other firms* is a dummy variable that takes on a value of 1 if the firm is not a TCL firm and a tycoon firm, and zero otherwise. *AFTER* is a dummy variable that takes on a value of 1 in the period after the TCLs took office, and zero otherwise. Profitability is the ratio of earning before interest and taxes to total assets. Leverage is the ratio of total debt to total assets. Numbers in parentheses are *t*-statistics from heteroskedasticity-robust standard errors with clustering at the firm level. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)
TCL*AFTER	0.149**	0.117**
	(2.28)	(2.05)
TCL	-0.054	-0.059
	(-0.56)	(-0.59)
AFTER	-0.026**	-0.023**
	(-2.34)	(-2.01)
Other firms	-0.040	-0.040
	(-1.04)	(-1.03)
Profitability		0.391**
		(2.04)
Leverage		0.054
		(0.71)
Constant	0.315***	0.264***
	(10.82)	(5.87)
Number of observations	370	370
Adjusted R^2	0.013	0.023