Tycoons Turned Leaders: Investigating the Incentives for Holding Public Office

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Abstract

This paper is the first study that shows empirically the economic incentives enticing business tycoons to seek election to top office. We document a relationship between tycoons running for office and holding concession contracts in regulated industries. Once the tycoons took office, we observe a remarkable increase in market valuation and market share of firms owned by their families' members. We also identify the mechanisms through which economic advantages were channeled to connected firms: discretionary tax breaks, concession fee cuts, and state contracts. In addition, entry restrictions were imposed to limit foreign investment and discourage new entrants thereby protecting incumbent connected firms. Overall, our findings highlight that in an economy that has weak institutions, business tycoons who acquire state power can expropriate country's resources to preserve and expand their corporate governance.

JEL classification: G15; G34; G38; K23

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1 Introduction

> *"... big businessmen everywhere seek to influence politics, whether they hold formal office or not...., most countries have parties that represent the interests of big business–and if not, they often suffer from a much shadier kind of influence-peddling."* (Economist, February 28, 2002)

An abundance of recent studies shows that in most countries in the world, a country's corporate governance is controlled by a handful of powerful tycoons with extensive business empires[1]. In a review of the literature, Morck, Wolfenzon, and Yeung (2005) put forward the argument that these very wealthy families can exert influence over the state to set policies for their benefits. Yet, despite a rich empirical literature showing that politically connected families enjoy various government favors, very little is known about what motivates the selection of the political influence mechanism: lobbying public officials versus holding office. This paper provides new empirical evidence on the economic incentives enticing business tycoons to seek top public office through national elections. Our focus is on tycoons holding the highest office because they have the political power to directly influence government policies and institutions.

Thailand provides a natural setting to investigate this issue. On January 6, 2001, a group of business tycoons won the general election. On February 9, 2001, they formed an administration led by Prime Minister Thaksin Shinawatra. Since this is the first time that this group of tycoons assumed public office, this event provides a clean experiment which helps ensure that the causality runs from political influence to private benefits obtained by their connected firms. In addition, as Thailand has relatively weak institutions, it allows us to observe any rent seeking activities.

Business tycoons who turned leaders are unique to Thailand. Indeed, they have been prevalent around the world. In Hong Kong, Tung Chee Hwa is a shipping tycoon who was nominated as Hong Kong's first Chief Executive in 1997-2004. In Ukraine, Yulia Tymoshenko is an energy tycoon who served as the Prime Minister in 2005. In Lebanon,

[1] For example, La Porta, Lopez-de-Silanes, and Shleifer (1999), Claessens, Djankov, Fan, and Lang (2002), and Faccio and Lang (2002).

Rafiq Hariri was a property and media tycoon who served 5 times as the Prime Minister. Developed countries are not exempt. In Italy, Prime Minister Silvio Berlusconi is a tycoon who owns a media empire. In Canada, Prime Minister Paul Martin transferred his business empire to his family before assuming office. In the US, Michael R. Bloomberg is a media tycoon who turned New York Mayor. Country leaders (and their families) who own business empires while holding office are also common. These leaders are namely the Suharto family in Indonesia, the Lee family in Singapore, the Marcos family and the Estrada family in the Philippines, and the Mahathir family in Malaysia (e.g., Claessens, Djankov, and Lang (2000)).

What drives tycoons to seek election to top office? Our analysis framework is based on the private-interest theory of government that hypothesizes that leaders are self motivated (Stigler (1971) and Becker (1983)). Business tycoons who have *de facto* political power have economic incentives to seek *de jure* political power in order to maintain their *status quo* (Acemoglu, Johnson, and Robinson (2004) and Morck, Wolfenzon, and Yeung (2005)). 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)). However, the discretion to introduce policy changes that further their private interests is subject to institutional constraints, e.g., public officials' weak checks and balances, and a free press. Our empirical analysis yields findings that are broadly consistent with the predictions of the private-interest theory.

In the first analysis, we examine the characteristics of tycoons who choose to run for top office. In other words, we investigate an *ex ante* event. We construct a comprehensive data set that includes the top 2,000 firms to identify the country's richest families. The probit regression results show that the likelihood of business tycoons getting elected increases with their wealth; and whether or not a large share of the family's revenue is from concession contracts in regulated industries, e.g., the telecommunications industry. Consistent with Morck, Wolfenzon, and Yeung (2005), the results suggest that holding public office would be an efficient means of exerting political influence when expected future economic rents are high. In the Thai context, by holding top office, one can participate in the regulatory process

and have his interest taken into account – including changing the concession contracts and other related regulations.

In the second analysis, we investigate an *ex post* event: after holding office, whether the tycoons have used public office to benefit their business empires. First, we examine stock price performance of their connected firms. The results show that the mean three-year buy-and-hold returns for connected firms are greater than those of non connected firms 179.4%. In another market valuation measure, we find that the mean ratio of the market to the book value of equity of the connected firms increases significantly from 1.34 points before the tycoons taking office to 3.33 two years after took office; and more than double when compared to non connected firms.

Next, we show that economic advantages were bestowed to connected firms via the following mechanisms: special favors in the form of tax holidays, new state contracts, and license fee cuts; changing legal and economic institutions to create entry barriers and effectively protecting incumbent connected firms from competition. Finally, we find that incumbent connected firms benefited at the expense of their rival firms. On average, the market share of connected firms increased significantly about 33.09% more than non connected firms.

Overall, the evidence suggests that the political power of the firms' owners accounted for the extraordinary incremental gain in market valuation and market share; and rules out the hypothesis that the tycoons do not have an economic incentive in holding public office.

Taken together, our results support the argument put forwarded by Morck, Wolfenzon, and Yeung (2005) that there is another serious problem due to concentrated ownership. We provide novel evidence showing that powerful families who own business empires can capture state power by getting elected. Once seizing power, they can implement policies that benefit their own business empires. Their private interest has the potential to shape policy outcomes because the country has imperfect information and imperfect public oversight.

This study also complements ongoing research that seeks to understand the political influence exerted by a country's powerful elites and the negative long term effects on the economic development of the country. Acemoglu and Robinson (2000, 2002) argue that politically powerful elites (e.g., absolutist monarchies and landed elites) may block the

introduction of new technologies and superior economic institutions to protect their power. Acemoglu, Johnson, and Robinson (2001) and Acemoglu and Johnson (2005) find that countries with higher constraints against the expropriation by powerful elites and politicians have significantly higher long term growth. Rajan and Zingales (2003) address the issue that corporate elites lobbying for a low level of investor protection to prevent entry from newcomers end up worsening financial market development.

The remainder of the paper is organized as follows. In Section 2, we discuss 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. Section 6 concludes the paper.

Related literature: Business owners and political influence

There is a long history of theoretical research on the political influence of the owners of big businesses (Krueger (1974, 1993), Olson (1982, 2000), De Soto (1989), and Shleifer and Vishny (1993, 1994)). From the business owners' perspective, political networks are a highly profitable investment because they facilitate political favors. They can also exploit a pyramidal ownership structure to reduce the costs of establishing political connection (Morck and Yeung (2004) and Morck, Wolfenzon, and Yeung (2005)).

Recent studies show that firms indeed gained from maintaining political connections. Faccio (forthcoming) finds that when the largest shareholders entered politics, the firm's stock prices increased. In contrast, Fisman (2001), and Ramalho (2003) show that stock prices of connected firms declined when they are losing their political influence.

A number of empirical studies show that politically connected firms received government favors. Johnson and Mitton (2003), Khwaja and Mian (forthcoming), Chiu and Joh (2004), and Charumilind, Kali, and Wiwattanakantang (2006) find that connected firms have preferential access to financing in Malaysia, Pakistan, Korea, and Thailand, respectively. Faccio, Masulis, and McConnell (forthcoming) show that politically connected firms are likely to be bailed out by the government. Leuz and Oberholzer-Gee (forthcoming) show that political connections and foreign securities are substitues. Besides financing, Siegel (2004) finds that

political connections are crucial to firms' access to cross-border strategic alliances even after liberalization. Hellman, Jones, and Kaufmann (2003) find that firms in transition economies that were able to buy off state officials for property rights protection grew faster than other firms.

There are also extensive studies that argue that political connections contribute to the rise of family owned business groups in Japan, Korea, Thailand, Malaysia, Russia, China, and Chile. Khanna and Yafeh (2005) provide an excellent literature review on this issue.

Big businesses can also manipulate politicians to set public policies or inefficient institutions that preserve the *status quo* (see Morck, Wolfenzon, and Yeung (2005)). To date, a very small number of studies supporting this view exists, however. Perotti and Volpin (2005) provide a theoretical model showing that wealthy entrepreneurs lobby for a low level of investor protection to prevent potential entrants from raising capital. Morck, Stangeland, and Yeung (2000) find that countries with a higher proportion of heir-controlled firms (who are supposedly politically connected) are likely to have higher barriers to FDI. Similarly, Johnson and Mitton (2003) find that after Malaysia imposed capital controls in September 1998, the market value of firms owned by friends of Prime Minister Mahathir increased about 32%. The evidence from these two studies suggests that such capital flow policies were implemented with the intention of steering resources to connected firms.

The mechanisms via which business elites exert political influence, however, have largely gone unexplored. This paper is the first study that examines the circumstances under which business tycoons choose to hold public office themselves instead of lobbying politicians.

2 Politics in Thailand

Since the absolute monarchy was abolished in 1932, Thai politics were dominated for half a century by a military and bureaucratic elite. Civilian governments slowly gained greater authority, but were typically short-lived and unstable. In 1988, General Chatichai Choonhavan assumed office as the country's first democratically elected prime minister in more than a decade. Unfortunately, this government was overthrown by a military coup in February,

1991. In the following ten years, Thailand was ruled by four elected governments, namely the governments of Prime Ministers Chuan Leekpai (September 1992 to May 1995), Banharn Silpa-Archa (July 1995 to September 1996), General Chavalit Yongchaiyudh, (Novermber 1996 to November 1997), and Chuan Leekpai (September 1997 to Febuary 2001). 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. Therefore, all elected governments were shaky; and indeed all collapsed when key coalition partners deserted them.

A big change in Thai politics occurred when political reforms resulted in a new constitution in 1997. The principal aim of the new constitution was to create a stable democratic system with checks and balances. Under the new constitution, the House of Representatives is made up of 500 members (MPs). Out of the 500 MPs, 400 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 and cabinet members must be elected MPs.

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 Febuary 9, 2001. Thaksin Shinawatra's administration has ruled the country since then, and was re-elected in the February 2005 election. This government is the first civilian government to have completed a full four-year term. This administration is also unique in that the prime minister and many of the cabinet members belong to families who own big business empires.

Most business tycoons elected in the lower house in the 2001 election were political neophytes. Those who entered politics earlier began their political career only around the mid 1990s, mostly by being appointed as cabinet members. However, their appointments were very brief as the cabinets had short-lived tenures as noted earlier. For example, Thaksin

Shinawatra was appointed as foreign minister only for about three months from November 1994 to Febuary 1995. His two appointments as deputy prime minister were similar; the first time was for 13 months (from July 1995 to August 1996), and the second time was for three months (from August to November 1997).

It should be noted that even though Thaksin Shinawatra's administration took office in February 2001, their political power was shaky for the first half-year due to the serious corruption charges against Prime Minister Thaksin. Since late 2000, Thaksin was accused of concealing assets while serving in top office in 1997, an alleged violation of the new constitution. Thaksin was tried by then the newly established Constitutional Court. Had he been found guilty, Thaksin 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 Thaksin's administration attained *effective* political power.

3 Data

In order to identify the country's top tycoons, we construct a database on family trees and ownership. Our sample includes the top 2,000 largest companies ranked based on the total assets as of the end of year 2000 (listed and non listed companies are included). The accounting data are obtained from the Business On Line (BOL) database. The BOL company is the sole agent that has a license from the Ministry of Commerce to reproduce the accounting and ownership information of all companies that were registered at the Ministry of Commerce.

We collect the data on listed firms from a number of databases. The financial data are obtained from Worldscope as of October 2004. Stock price and stock market index data are from Datastream. We obtain the ownership information from the company's annual report (FM 56-1) which is filed to the Stock Exchange of Thailand annually, and reproduced in two databases namely the I-SIM CD-ROM and the SETSMART on-line service. The databases are available at the website of the Stock Exchange of Thailand. The ownership data from

these databases include shareholders with stakes of at least 0.5%.

To identify the ultimate owners, we use the standard approach suggested by La Porta, Lopez-de-Silanes, and Shleifer (1999) and Claessens, Djankov, and Lang (2000). We treat all family members as well as companies ultimately owned by these members as a single shareholder. Since it is a common practice in Thailand that businesses are closely tied by an extensive family, a shareholder here 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.

Identifying extended families who have different last names, however, is not straightforward as there is no official record of the family relationships. We use multiple data sources to identify family trees. The company files (FM 56-1) provides family relationships between major shareholders and 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 relationship. Sappaiboon (2000, 2001) provide detailed information on family relationship of the top 100 families. We also cross check the family relationship information using and local newspapers and magazines namely the Nation, Bangkok Post, and Matichon Weekly. 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.

To trace the pyramidal and cross-share ownership that is involved with a chain of companies, we use a number of databases. The company annual report (FM 56-1) provides a list of a firm's affiliated companies and the shareholdings. The BOL database provides the ownership information of non listed companies.

4 The decision to run for public office (*ex ante* event)

What motivates tycoons to get elected to high office? We apply the private-interest theory to develop the hypotheses regarding the determinants of tycoons' decision to run for top office. First, 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 to preserve his corporate governance power. The richer the tycoons are, the stronger the incentive to acquire *de jure* political power would be.

Second, 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)). Also, when competition for economic rents among dominant businesses is severe, tycoons cannot rely solely on lobbying politicians because of the high chance of the prisoner's dilemma, i.e., lobbied politicians will not deliver the promised favorable treatment (Morck, Wolfenzon, and Yeung (2005) and Gehlbach and Sonin (2005))). Accordingly, we hypothesize that the likelihood of business tycoons seeking public office is higher when future economic rents are large and when competition for economic rents among dominant businesses is severe.

4.1 Research methodology

We employ probit models to explain the importance of wealth and economic rents. 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 total assets of their firms. More specifically, 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. In other words, we consider an extended families as one single family. Third, we rank the families based on their wealth. We cut off the families at the top 165 which is an arbitrary choice. To make sure that the families in our sample indeed include the country's richest families, we cross check with the list of top 60 wealthiest families in Thailand as of 1996 ranked by Charumilind, Kali, and Wiwattanakantang (2006)

It should be noted, however, that as our sample includes only the top 2000 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 tycoons who were the members of the House of Representatives as of January 2001. Based on the Thai constitution described in Section 2, "tycoons running for public office" include those who: (1) won the January 2001 general election, or (2) were members of the "party lists" of any political parties. This information is obtained from the website of the Election Commission of Thailand. A dummy variable is set to 1 if at least one person from a family is a MP, 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 long term concession contracts in regulated utility industries as suggested by prior studies (e.g., Krueger (1974) and Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2002)). These concession contracts, which range from 17-30 years, were granted in the early 1990s. The concession contracts are a good measure for future economic rents for the following reasons. First, under these contract as of 2000, the operation of the concessions were under strong supervision by the regulators who were state owned enterprises (SOE). 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. This power is indeed comparable with licensing power (Poapongsakorn and Nikomborirak (2003)). This was problematic to concession holders in the businesses in which the regulators (SOEs) were also major operators and hence rivals, e.g., in the telecommunications business.

Second, in the telecommunications business, since 1996 the government implemented

a WTO commitment plan to liberalize the industry by 2006. All concession holders felt threatened. Should the market were fully liberalized, it would be highly competitive since in addition to the two giant SOEs (the Telephone Organization of Thailand (TOT) and the Communications Authority of Thailand (CAT)), international players with superior technological know-how could also participate (Phongpaichit and Baker (2004)). This plan also included corporatizing the two SOEs. Unbundling the regulator roles and concession revenue recipients of the SOEs created a genuine dispute between the operators over the conversion of the concessions into some forms that were beneficial to both partners (Phongpaichit and Baker (2004)).

As indeed argued by Noll (2000), as a regulatory process is inherently conflictual, participants often seek to influence the process to their own advantage, and for protecting themselves against unfavorable outcomes that reflect effective political influence by others. We, therefore, hypothesize that concession holders have the incentives to seek to exert political influence on the policy process. In the Thai context, the regulatory process is carried out by a committee consists of ministers and other senior officials. (Poapongsakorn and Nikomborirak (2003)). So, by holding public office, one can more effectively participate in the regulatory process and have their interests taken into account in policy decisions.

Specifically, we measure economic rents by the following two variables. First, a dummy variable, *Concession*, is set equal to 1 if a family held at least one concession as of 2000 year end. Second, we estimate the value of the concessions 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. A firm is belong to a family if the family owns at least 10% of the shares. 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 Results

Table 1 reports basic data on the characteristics of tycoons in our sample. Out of the 165 wealthy families, there are 13 families who ran for public office; one from each family. We

run the univariate tests comparing the characteristics of the 13 tycoon families who ran for public office and other tycoon families. Basically, the results support our hypothesis. The 13 tycoon families are significantly wealthier than other tycoons families. On average, the 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 289.9 million held by other tycoon families. The tycoon families who ran for public office also hold significantly more concession contracts compared to other tycoon families. On average, the 13 tycoons have about 22.9% of their revenues from concessions which is significantly more than the concession revenues of 1.5% of other tycoon families. These two groups of tycoons are similar in terms of leverage and profitability, however.

Table 2 reports the information on concessions held by tycoon families. There are 18 firms owned by 10 families in our sample that received the concessions. Most of the concessions were in the telecoms industry in which the contracts range from 15-35 years. The revenue generated from the concessions varies from about 13.2% to 97.7% of total family group's revenue.

Table 3 presents the probit regressions relating the probability of any given tycoon family running for public office in January 2001 with their business group's characteristics. The estimated results are consistent with our hypothesis. The estimated coefficients on the proxy for a family's wealth are positive and strongly significant at the 1% level. The results suggest that a family's wealth increases the likelihood of a member of the family running for top office. We also find that the likelihood of business tycoons running for top office is associated with having the concessions. The estimated coefficients on the two proxies for economic rents: the concession dummy and the ratio of concession revenue over total family group's revenue are positive and strongly significant at the 1% level.

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 level. 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 (forthcoming)).

One possible alternative interpretation of our results regarding concession contracts is that the concessions might be a proxy for political connection. In other words, the firms' owners have long-established strong political connections with public officials; otherwise, they would not have been granted the concessions. This interpretation also support our results. Because concession contract holders have *de facto* political power, they have an incentive to seek *de jure* political power to preserve their corporate governance power.

In summary, we find that the decision of tycoons for holding public office is related to their wealth and the privilege of having the concessions. This empirical evidence thus far indicates that the hypothesis that the tycoons have economic incentives for seeking political power cannot be rejected. In the next analysis, we further substantiate this finding by examining whether tycoons use public office to maximize their own welfare.

[Insert Table 1, Table 2, and Table 3 here]

5 Economic rents to connected firms (*ex post* event)

In this section, we investigate whether tycoons have economic incentive for holding office. 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 persue 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 (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. The market valuation of politically

connected firms could even be negative or lower than other firms if minority shareholders view that the controlling shareholders will use the firms's resources to achieve their political ideology.

Our analysis proceeds according to the following three steps. First, we evaluate the market value of the firms that are owned by the tycoons who turned leaders, thereafter called *tycoons-cum-leaders* (TCLs). For this evaluation, we employ two performance measures: buy and hold abnormal returns; and the ratio of market value of equity to the book value of equity. Second, we identify via which mechanisms economic rents were channelled to connected firms. Finally, we investigate whether TCLs have gained more market share at the expense of rival firms.

5.1 The 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. This information is available at the Secretariat of the Cabinet's website (http://www.cabinet.thaigov.go.th). As noted in Section 3, we consider extended family members of TCLs as one individual to account for the fact that businesses in Thailand are tied closely among family members[2].

As we analyze stock prince performance, our focus is on listed firms in which the stock prices are available. Our sample firms consist of non financial firms. We exclude two sets of firms to remove any effects of the 1997 Asian financial crisis on our analysis: (i) 12 financially distressed firms that were moved to the rehabilitation section during 2001-2003, and (ii) 7 firms with negative book value of equity. We also exclude 8 firms with no market value of equity data. Our final sample consists of 685 firm-year observations representing 264 firms.

Table 4 shows the distribution of sample firms by industry. Industries are defined following Campbell (1996). TCL firms are defined as the firms in which a TCL owns at least 10% of the shares. We find that there are eight TCL families who are the controlling shareholders

[2]The information on family relationships is also crucial to our analysis due to the following reason. The 1997 Constitution limits the shareholdings of cabinet members at 5%. In addition, members of the House of Representatives are not allowed to receive any state concessions. These restrictions, however, do not extend to spouse, children, parents, and siblings. So, before assuming office, tycoons often transferred assets to other family members.

of 19, 21, 23 firms in our sample in 2001, 2002, and 2003, respectively. TCL firms appear in all the industries except the petroleum and services. TCL firms account for about 14.6% of total market capitalization and about 21.3% of the market capitalization of non-financial firms.

Regarding the ownership structure, the TCLs own quite large stakes in the firms. The average cash flow rights owned by the TCL families are 29.0%, 30.41%, and 31.60% in 2001, 2002, and 2003, respectively. Their average control rights are about 32.28%, 34.87%, and 36.24% in 2001, 2002, and 2003, respectively.

Table 5 presents the univariate tests comparing the characteristics of TCL firms with other firms as of 2001 year-end. As noted in Section 2, we consider 2001 as the starting year when the TCLs attain *effective* political power. At the starting year when the TCLs began holding public office, TCL firms are quite similar to other firms in terms of profitability (measured by ROA, profit margin), market valuation (the ratio of market value of equity to the book value of equity), the market share, investment, and financing structure. The only one difference is that TCL firms were significantly larger than other firms in terms of total assets.

[Insert Table 4, Table 5 here]

5.2 Stock price performance

5.2.1 Buy-and-hold returns

We begin our analysis by investigating the long term buy and hold abnormal returns (BHARs) of the following two portfolios: the first portfolio includes only TCL firms, and the second portfolio includes only non TCL firms. The BHAR measures the excess 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 twelfth, twenty fourth, and thirty sixth month. We obtain monthly stock returns (dividend included) from Datastream. To calculate the BHAR, we use the standard methodology as suggested by Barber and Lyon (1997). The percentage buy-and-hold return for firm i is

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

where *start* is the month when the election campaign began, T is the end of the 12th, 24th, or 36th month window, r_{it} is the monthly return for firm i in month t. We exclude the firms that have extreme monthly returns of greater than 100%.

Figure 1 presents the mean BHAR for the two portfolios: TCL firms relative to non TCL firms at the end of the twelfth, twenty-fourth, and thirty-sixth month. The results show that until the end of the first twelve months, the two portfolios generate similar returns: the mean BHAR for the portfolio of TCL firms is 31.9%, while the mean BHAR for the portfolio of non TCL firms is 19.7%. The mean differences are not statistically significant at the conventional levels. From this point onwards, however, TCL firms significantly outperform non TCL firms. The mean 24-month BHAR for the portfolio of TCL firms is 90%, which is significantly (at the 10% level) higher than that of the portfolio of non TCL firms of 55%. Similarly, the mean 36-month BHAR for the portfolio of TCL firms is 327.4% which is again significantly higher than the mean BHAR of the portfolio of non TCL firms of 148%. The mean differences are strongly significant at the 1% level.

The results that TCL firms did not outperform non TCL firms during the first 12 months, but significantly outperformed non TCL firms afterwards are consistent with our conjecture in Section 2. The market recognized that the TCLs' political power was shaky during their first year in office due to the corruption allegation. But, once their political power was secure, TCL firms experienced extraordinary abnormal returns – from the mean 12-month BHAR of 31.9% to the mean 24-month BHAR of 90%, and the mean 36-month BHAR of 327.4%.

Overall, the results suggest that the exceptional abnormal returns for TCL firms are attributable to the political power of the firms' owners.

[Insert Figure 1 here]

5.2.2 The ratio of market to book value of equity (MB)

In this section, we examine another market valuation measure: the ratio of market value of equity to book value of equity (MB). We also calculate industry-adjusted MB ratios using medians for each variable based on the industry classification of Campbell (1996). To net out any effects of the 1997 East Asian crisis, we do not use financial data prior to 2001. So, we compare market valuation of TCL firms with other firms one year before (2001) and two years after TCLs took office (2002 and 2003).

We use a difference-in-differences estimation strategy to assess the effect of political power on firm valuation. The results in Table 6A are consistent with the results based on BHARs. In Panel A, the first column shows that in 2001 TCL firms have an average MB ratio of 1.337, statistically indistinguishable from the 1.168 average MB ratio of non TCL firms. After TCLs assuming effective political power, the results in the second column show that that MB ratio of TCL firms increases significantly. The average MB ratio for TCL firms increase significantly from 1.337 prior to TCL taking office to 3.326 after taking office, which is about 148.77%. For non TCL firms, the average MB ratio also increases but to the smaller extent; from 1.168 prior to TCL taking office to 1.67 after taking office, which is about 42.99%. The difference-in-differences estimate for the two groups of firms suggests that TCL firms experienced an increase in MB ratios of 1.487 more than non TCL firms, statistically significant at the 5% level. The Wilcoxon rank-sum test confirms that the distributions of the changes in MB for the two groups of firms are significantly different.

In Panel B, we replicate the difference-in-differences analysis using the industry-adjusted MB ratios as a measure of market valuation to control for the industry effects. The results are similar to those presented in Panel A. The difference-in-differences estimate for the two groups suggests that the average industry-adjusted MB ratio for TCL firms increases 1.466 points more than that of non TCL firms, and is statistically significant at the 5% level.

To explore the robustness of the results, we introduce a set of variables controlling for firm-specific effects. Following Johnson and Mitton (2003), the control variables are size, leverage, firm growth, and industry effects. Size is measured as the logarithm of total

assets. Leverage is the ratio of the book value of total debt to the book value of total assets. Following Charumilind, Kali, and Wiwattanakantang (2006), total debt is defined as the aggregation of short-term debt, short-term portion of long-term debt, and long-term debt. Firm growth is the one-year growth rate in total assets. To control for industry effects, we include 11 industry dummies. To assure that the results are not driven predominantly by industry membership, we conduct two sets of industry-based robustness checks. First, we include 11 industry dummy variables in the regressions. Second, we use the industry-adjusted MB ratios and exclude the industry dummies.

Consistent with the difference-in-differences analysis in Table 6A, we create the dummy variable, *TCL*, which is one if a firm's major shareholder is one of the *tycoons-cum-leaders*. *AFTER* indicates the year after TCLs assumed effective political power. So, *AFTER* is equal to one in 2002 and 2003. The interaction of *TCL* and *AFTER* is our key variable of interest.

Table 6B presents the results estimated using the ordinary least squares (*OLS*) method. We calculate robust standard errors clustered at the firm level. The estimated results for the coefficients on the interaction variable *TCL*AFTER* are indeed 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 1.396 points relative to non TCL firms after the TCLs taking office. In the industry-adjusted MB regression, the results show that on average, MB ratios for TCL firms increase about 1.508 points relative to other firms after the TCLs taking office.

[Insert Table 6A and Table 6B here]

5.2.3 Economic significance of political power

Our results show that TCL firms have superior stock price performance to non TCL firms after TCLs took office. The results suggest that these positive value effects are attributable to the owners' political power. The magnitude of the estimated coefficients indicate that the "political power" effect on stock price performance is remarkable. The results from Figure 1 show that the political power accounts for about 35% incremental gain in the mean 24-

month BHR and about 179.4% in the mean 36-month BHR for TCL firms over non TCL firms.

Similarly, the difference-in-differences estimate shows that the change in MB ratios after TCLs took office is 1.487 higher for TCL firms than non TCL firms. Economically, this difference is equal to more than double of the average MB ratio of 1.337 for TCL firms before TCLs taking office.

We can also evaluate the economic importance of political power using the regression coefficients that estimate the change in MB ratios after TCLs took office. The results in Table 6B show that the effect of political power is more pronounced than other firm characteristics. While the estimated coefficients on TCL^*AFTER are strongly significant, none of the control variables is statistically significant. This evidence suggests that the political power effect is very strong in explaining the variation in market valuation, and rules out the effects of other firm charateristics such as the debt ratio.

The extraordinary increase in stock market performance of the politically connected firms is consistent with the view that tycoons-cum-leaders use public office to further their private interests. This empirical evidence, therefore, supports the private-interest hypothesis.

5.2.4 Robustness checks

In this subsection, we briefly describe the results of some of the robustness checks of our findings.

First, we address potential concern with the difference-in-differences analysis that there may be a strong serial correlation among the two consecutive years of the MB ratios (2002 and 2003). In other words, the difference-in-differences standard errors that we obtained in Table 6 may be underestimated. To alleviate this concern, we follow the method suggested by Bertrand, Duflo, and Mullainathan (2004) by using an alternative measure of MB ratios for the period "after" TCLs took office. Specifically, we use the mean value of MB ratios for 2002 and 2003 as a market valuation measure and perform similar tests as in Table 6A and Table 6B. In unreported results, we find that our main results are not altered. The only difference arising from using the average MB ratios is that it reduces the significance of the

estimated coefficient on *TCL*AFTER* from the 5% to the 10% level.

Second, we compare TCL firms with firms that are owned by very wealthy families not in top office (hereafter called "tycoons"). Arguably, until around 2001 the "tycoons" were likely to be comparable to the TCLs in terms of political influence (see Polsiri and Wiwattanakantang (forthcoming)). We define "tycoons" as the top 60 wealthiest families shown in the list of Charumilind, Kali, and Wiwattanakantang (2006) excluding the TCLs. There are 64 firms in this category. In unreported results, we replicate the difference-in-differences analysis, but have the firms owned by "tycoons" as the benchmark firms. The results show that TCL firms have significantly higher MB ratios than firms owned by the "tycoons".

5.3 How were economic rents derived?

The next question is what could be the possible sources of excess corporate valuation among TCL firms. If this is indeed the outcome of economically motivated decisions by TCLs, then via which mechanisms are economic rents more likely to be channelled? To measure the nature of subsidies and advantageous deals given to connected firms, we use the event study approach. We explore the events that might indicate some kinds of "economic favors" extended to TCL firms. If the principal beneficiaries appear to be the TCLs themselves, the share prices of TCL firms should increase in reaction to the news announcement. There should be no difference in share prices among all firms, otherwise.

As suggested by the literature, we search for the announcements and news that indicate the following contents: the introduction or modification of laws, regulations, and rules to the advantage of TCL firms, and other forms of privileges and special treatments given to TCL firms such as subsidies, tax breaks, concessions, financing, and bailouts of failing firms (see Section 2 for a literature review). The major data sources are local business newspapers, "The Nation" and "Bangkok Post." We have found the following four events which are categorized according to the contents. Following the standard event study approach, to effectively detect the market responses, we focus on the first day that the news became public.

I. The implementation of entry barriers

Event 1. 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 enactment of this law was in fact not expected. The foreign ownership limitation was inserted as a clause by the Senate while they were passing the bill in the parliament (Phongpaichit and Baker (2004)). This law effectively puts a barrier to entry in the industry on foreign investors. While the law negatively affected many major firms in the industry that had foreign partnership, a few TCL firms were able to meet the ownership limit (see Phongpaichit and Baker (2004)).

Event 2. 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 licensors, TOT and CAT (at about 5-30% of the concessions' revenue), was replaced by a special excise duty (see also Section 5.2.1). 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 licensors TOT and CAT.

At a first glance, the new payment approach does not appear to benefit the incumbent concession holders. However, as the excise tax is to be paid to the Ministry of Finance, the Minister of Finance has a discretionary power to alter the tax rate. Because the Minister of Finance is a politically appointee, TCLs can influence the policy if they wish (see also Phongpaichit and Baker (2004)). More importantly, the excise tax scheme effectively functions as a barrier to entry to the advantage of the incumbent firms. Since by 2003, the telecoms industry was liberalized, if without the excise tax, new businesses were able enter the industry without paying any royalty, while the incumbents were in a worse position because they are tied by the concession contracts granted in the 1990s. However, by imposing excise tax scheme, new businesses incur 10% excise tax while incumbents do not incur any marginal costs.

We argue that the enactment and modification of these two laws are likely to be beneficial to TCL firms. As shown in Table 2, a large proportion of revenue of many TCL firms was

from the telecoms concessions. For example, as of 2000, the family of the Prime Minister Thaksin Shinawatra held eight telecoms concessions which generated about Bt 43,702 (USD 1.01 billion). This concession revenue accounts for about 94% of the group's total revenue in 2000. Similarly, the Bodharamik family, who served as a minister, held about USD 284.14 million worth of concessions contracts accounting for about 80.5% of the group's revenue.

II. Special favors: License fee cuts, state contracts, and tax exemption

Event 3. On April 10, 2002, an executive of a TCL company, Independent Television (iTV), announced at a media meeting that he was confident that the company would be granted a sharp reduction in its heavy license concession fees (Nation, April 10, 2002). A bill was indeed passed by an arbitration panel on January 29, 2004. The bill lowered by almost three quarters the concession fees from Bt 25 billion (USD 637 million) over 30 years to just Bt 230 million a year (Nation, January 30, 2004). In addition, the company was also granted a 50% increase in its entertainment programs and aired these shows during prime time spots. This concession might benefit the company about Bt 18 billion (USD 466 million) (Financial Times, February 2, 2005)).

Event 4. On November 20, 2003, the Board of Investment, a state agency, announced that a TCL firm, Shin Satellite was awarded an eight-year corporate tax holiday on profits from foreign sales of a satellite (Nation, November 21, 2003). This award might benefit the company about Bt 16.5 billion (Financial Times, February 2, 2005)).

We use the standard event study approach following Brown and Warner (1985) to estimate the market-adjusted CARs around the event dates. We estimate the market model parameters by using 200-trading day windows (-220, -21) preceding the event date. To obtain the cumulative abnormal return, the daily abnormal return is accumulated for the three-day period around the event dates (CARs (-1, +1)). The event date is defined as the first trading day after the announcement date.

Table 7A presents mean and median CARs for two groups of firms: TCL firms and other firms. The results are startling. We find that the announcement of the news is associated with significant positive abnormal returns for TCL firms. The average CARs for TCL firms are 2.29%, 3.02%, 3.08%, and 1.27% following event 1 to event 4, respectively. In contrast,

other firms experienced negative abnormal returns. The mean CARs are -0.19%, -1.04%, -0.42%, and -2.30% associated with the event 1-4, respectively. The univariate tests for the difference in the means and medians of the two groups of firms indicate that TCL firms significantly outperformed other firms. Statistically, the average CARs for TCL firms are about 2.48%, 4.06%, 3.50%, and 3.57% higher than CARs for other firms associated with events 1-4, respectively. The differences in the mean values are strongly significant at the 15% and 5% levels. The median CARs for TCL firms are about 3.39%, 1.20%, 1.35%, and 1.72% higher than those of other firms associated with events 1-4, respectively. The differences in the median values are all significant at the conventional levels except for the 4th event.

For robustness tests, we run *OLS* regressions controlling for firm size and leverage. The regressions results in Table 7B are consistent with the univariate tests. The estimated coefficients on the TCL dummy are positive and strongly significant at the 5% level for all events. The effect of the announcements of the news on stock prices is both statistically and economically significant. The estimated coefficients indicate that the announcements are associated with large increases in CARs (-1, +1) for TCL firms over other firms of about 2.5%-4% depending on the events. The results suggest that the market appears to view the state policies being in favor of connected firms.

[Insert Table 7A and Table 7B here]

5.4 The effects on market share

The evidence we have put together so far suggests that TCL firms have enjoyed higher market valuation after the owners took office. The channels through which economic rents were given to connected firms were via imposing regulations and influencing state policies to get privileges deals. An additional dimension of the economic outcome of political power is whether the entry regulations and privileged deals safeguard the incumbent connected firms and hurt rival firms (see also Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2002)). If so, connected firms should be able to expand and seize more market share after the owners took office.

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

Table 8A shows that in the year before TCL took office, the average market share for TCL firms is about 0.275 which is lower than that of 0.288 for non TCL firms. However, the difference is not statistically distinguishable from zero. After TCLs took office, the difference-in-differences estimate for the average market share of TCL firms increases from 0.275 to 0.356 which is about 0.081 or 29.45%. The difference is statistically significant at the 10% level. For non TCL firms, the market share slightly declines from about 0.288 to 0.278, but the difference is not statistically different from zero. The difference-in-differences estimate for TCL firms versus non TCL firms shows that the average market share of TCL firms increases about 9.1, and is statistically significant at the 5% level. The difference of 9.1 is large, as it indicates an increase of about 33.09% in the market share of TCL firms, which is remarkable.

Table 8B shows the regression results after controlling for the effects of profitability, leverage, and industry. Inclusion of the control variables leave our key coefficients intact. The estimated coefficients on the interaction variable $TCL^{*}AFTER$ are positive and significant at the 5% levels. On average, TCL firms gained a higher market share, about 8.7, than non TCL firms after the TCLs took office.

The results on market share confirm our findings on stock market performance that the size of the effect of the "political power" is economically significant. The incremental gain in the market share for TCL firms of 33.09% over other firms is remarkable given that the country's macro economic growth is about 5.3% and 7% in 2002 and 2003, respectively. Therefore, the hypothesis that tycoons have economic incentives in holding public office cannot be rejected.

[Insert Table 8A and Table 8B here]

6 Conclusion

This is the first study investigating the economic incentives of business tycoons for holding public office. The empirical results support the view that once in office, tycoons pursue their own private interests. We find a positive relationship between tycoons holding concession contracts and entering politics suggesting that holding public office might be a mechanism for rent extraction. A further investigation shows that after tycoons took office, their firms achieved greater market power and valuation than other firms. We also find that the government implemented a number of policies to favor connected firms.

It should be noted that Thaksin Shinnawatra's cabinet implemented a number of other policies that are not within the scope of this paper. Our paper makes no statement on these other policies—they may, or may not, serve public interests. This paper also takes no position on whether the result of the policies of Thaksin Shinnawatra's cabinet left Thailand better or worse off.

Our study, however, does provide some direct evidence that weak institutions allow leaders to channel various forms of government support to firms owned by their families. Consistent with Johnson and Mitton (2003), we show that the allocation of government favors can have a large effect on the distribution of outcomes at the firm level. Our findings also suggest that policy outcomes are endogenous and determined by the corporate elites who hold political power.

Our evidence is also consistent with the argument put forth in the literature that state leaders can use the state to pursue their private benefits North (1981), Olson (1982, 2000), Shleifer and Vishny (1998), Djankov, Glaeser, La Porta, Lopez-de-Silanes, and Shleifer (2003), and Stulz (2005).

It is also important to investigate further and understand what happens in the long term to countries where a small group of elite families is so powerful that they can control both political and economic decision making, and hence might be able to stay in power indefinitely. Future empirical studies are needed to investigate the outcome of being dependent on such powerful elites, e.g., on institutional and economic development.

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Table 1: Characteristics of tycoons

The table reports basic characteristics of the top 165 tycoons in Thailand. The statistics are calculated at the family level as of 2000 year-end. The sample firms include the top 2,000 companies in Thailand as of 2000. A firm is defined as a family's group firm if it is ultimately owned at least 10% by the family's members. Families of tycoons running for public office are defined as families who had members in the House of Representatives as of January 2001. Log (total assets) is the logarithm of book value of total assets. Concession revenue/total revenue is the ratio of total revenue generated by concessions to the total revenue generated by the firms owned by the family. Leverage is the ratio of total debt to total assets. Profitability is earning before interest and taxes to total assets. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

		All tycoons	Families of tycoons running for public office	Other families	*t*-statistics (*t*-test)	*z*-statistics (Wilcoxon test)
		(N=165)	(N=13)	(N=152)		
Total assets (million USD)	Mean	619.17	4,418.46	289.90	5.35***	3.81***
	[Median]	[51.05]	[267.03]	[43.23]		
Log (total assets)	Mean	3.500	4.391	3.422	4.95***	3.81***
	[Median]	[3.342]	[4.061]	[3.270]		
Concession revenue/ total revenue	Mean	0.032	0.229	0.015	5.54***	5.90***
	[Median]	[0.000]	[0.000]	[0.000]		
Profitability	Mean	0.035	0.024	0.035	-0.20	-0.67
	[Median]	[0.063]	[0.042]	[0.066]		
Leverage	Mean	0.425	0.395	0.428	-0.34	-0.23
	[Median]	[0.420]	[0.380]	[0.425]		

Table 2: Concessions held by tycoons

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

Tycoon 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	na						
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						

Tycoon 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	na	16	394.91	52.30	13.2%	342.61	86.8%
	LANNA LIGNITE	Power generation	na						
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	na						
	SAMART CORPORATION	Internet services	1996-2006						
	SAMART CORPORATION	NMT 900 mobile telephone in Cambodia	1992-2027						
WONGKUSOLKIT	BANPU	Coal and minerals mining	1974-na	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: Likelihood of tycoons running for public office

The table reports the probit estimates for the probability of tycoons running for public office. The dependent variable is a dummy variable that is set to one if at least one person from a family is a member of the House of Representatives, and zero otherwise. All the financial variables are measured at the family level. Log (total assets) is the logarithm of total assets. Concession is a dummy variable that is set to one if a family held at least one concession as of 2000 year-end. Concession revenue/total revenue is the ratio of total revenue generated by concessions to the total group revenue. Leverage is the ratio of total debt to total assets. Profitability is earning before interest and taxes to total assets. Numbers in parentheses are *z*-statistics from heteroskedasticity-robust standard errors with clustering at the family group level. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)
Log (total assets)	0.532***	0.577***	0.655***	0.707***
	(2.93)	(3.16)	(3.73)	(3.90)
Concession	1.206***	1.307***		
	(2.60)	(2.90)		
Concession revenue/total revenue			1.754**	1.918**
			(2.20)	(2.43)
Profitability		-1.181		-1.173
		(-1.42)		(-1.43)
Leverage		-0.784		-0.808
		(-1.05)		(-1.12)
Constant	-3.602***	-3.415***	-4.017***	-3.840***
	(-5.12)	(-5.51)	(-5.66)	(-6.01)
Number of observations	165	165	165	165
Pseudo R^2	0.265	0.288	0.255	0.280
Log pseudo-likelihood	-33.34	-32.27	-33.77	-32.67

Table 4: Distribution of sample firms by industry

The table reports the distribution of sample firms. TCL firms are the firms owned by the tycoons who are in public office. Non TCL firms are other firms. The industries are defined following Campbell (1996).

	2001				2002				2003			
	TCL firms		Non TCL firms		TCL firms		Non TCL firms		TCL firms		Non TCL firms	
Industry classification	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Petroleum	0	0.0%	6	2.8%	0	0.0%	6	2.6%	0	0.0%	7	2.8%
Consumer durables	1	5.3%	32	14.7%	1	4.8%	36	15.7%	1	4.3%	40	16.0%
Basic industry	3	15.8%	31	14.3%	3	14.3%	30	13.0%	3	13.0%	33	13.2%
Food/Tobacco	1	5.3%	34	15.7%	1	4.8%	35	15.2%	2	8.7%	36	14.4%
Construction	3	15.8%	20	9.2%	3	14.3%	20	8.7%	3	13.0%	21	8.4%
Capital goods	0	0.0%	11	5.1%	1	4.8%	12	5.2%	1	4.3%	11	4.4%
Transportation	1	5.3%	5	2.3%	1	4.8%	5	2.2%	1	4.3%	6	2.4%
Utilities	6	31.6%	6	2.8%	7	33.3%	7	3.0%	7	30.4%	8	3.2%
Textiles/Trade	2	10.5%	29	13.4%	2	9.5%	30	13.0%	2	8.7%	30	12.0%
Services	0	0.0%	16	7.4%	0	0.0%	17	7.4%	0	0.0%	21	8.4%
Leisure	2	10.5%	22	10.1%	2	9.5%	24	10.4%	2	8.7%	26	10.4%
Real Estate	0	0.0%	5	2.3%	0	0.0%	8	3.5%	1	4.3%	11	4.4%
Total	19	100.0%	217	100.0%	21	100.0%	230	100.0%	23	100.0%	250	100.0%

Table 5: Firm characteristics as of 2001

The table shows descriptive statistics of TCL and non TCL firms as of 2001. 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 public office. Non TCL firms are other firms. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	All firms		TCL firms		Non TCL firms		*t* -statistics (*t* -test)	*z* -statistics (Wilcoxon test)
	Mean	Median	Mean	Median	Mean	Median		
VALUATION								
Market-to-book equity (MB)	1.181	0.743	1.337	0.750	1.168	0.739	0.20	0.67
Industry-adjusted MB	0.443	0.022	0.510	0.088	0.438	0.016	0.09	0.52
MARKET SHARE								
Firm's sales/total industry sales	0.287	0.191	0.275	0.153	0.288	0.194	-0.17	-0.36
PROFITABILITY								
Return on assets (EBIT/total assets)	0.085	0.087	0.076	0.093	0.086	0.087	-0.47	-0.19
Industry-adjusted return on assets	0.007	0.008	-0.001	0.008	0.008	0.008	-0.43	-0.05
Profit margin (EBIT/total sales)	0.119	0.094	0.159	0.088	0.116	0.095	1.13	0.68
Industry-adjusted profit margin	0.033	0.009	0.073	0.032	0.029	0.008	1.17	0.85
LEVERAGE								
Total debt/total assets	0.321	0.291	0.333	0.317	0.320	0.287	0.20	0.13
Industry-adjusted total debt/total assets	-0.011	-0.030	-0.037	-0.002	-0.008	-0.044	-0.42	-0.20
DEBT MATURITY								
Long-term debt/total debt	0.409	0.394	0.552	0.717	0.397	0.384	1.74*	1.51
Industry-adjusted long-term debt/total debt	0.027	-0.002	0.067	0.116	0.024	-0.013	0.52	0.79
CAPITAL EXPENDITURES								
Capital expenditure/total assets	0.052	0.032	0.045	0.025	0.052	0.032	-0.47	-0.58
Industry-adjusted capital expenditure/total assets	0.021	0.001	0.017	-0.006	0.021	0.001	-0.27	-0.27
ASSET TURNOVER								
Total sales/total assets	0.944	0.858	0.740	0.658	0.962	0.875	-1.57	-1.70
Industry-adjusted total sales/total assets	0.076	0.016	0.028	0.000	0.080	0.017	-0.46	-0.31
INCOME TAXES								
Income taxes/total sales	0.019	0.008	0.024	0.012	0.018	0.007	0.77	0.39
Industry-adjusted income taxes/total sales	0.011	0.002	0.017	0.001	0.011	0.002	0.74	-0.02
OTHER CHARACTERISTICS								
Total assets (million USD)	203.31	48.04	288.25	178.41	195.87	43.70	0.57	2.47**
Net sales (million USD)	154.70	40.18	201.51	84.11	150.62	38.90	0.09	1.48
Growth on assets	0.011	-0.011	-0.002	-0.027	0.012	-0.010	-0.42	-0.51
Growth on sales	0.174	0.061	0.147	0.076	0.176	0.061	-0.14	-0.37
Fixed assets/total assets	0.454	0.420	0.429	0.410	0.456	0.430	-0.51	-0.44

Figure 1: Buy-and-Hold Returns

The figure plots the equally weighted average buy-and-hold returns for 12th, 24th, and 36th month after the beginning of the election campaign (November 2000). TCL firms are the firms owned by the tycoons who are in public office. Non TCL firms are other firms.

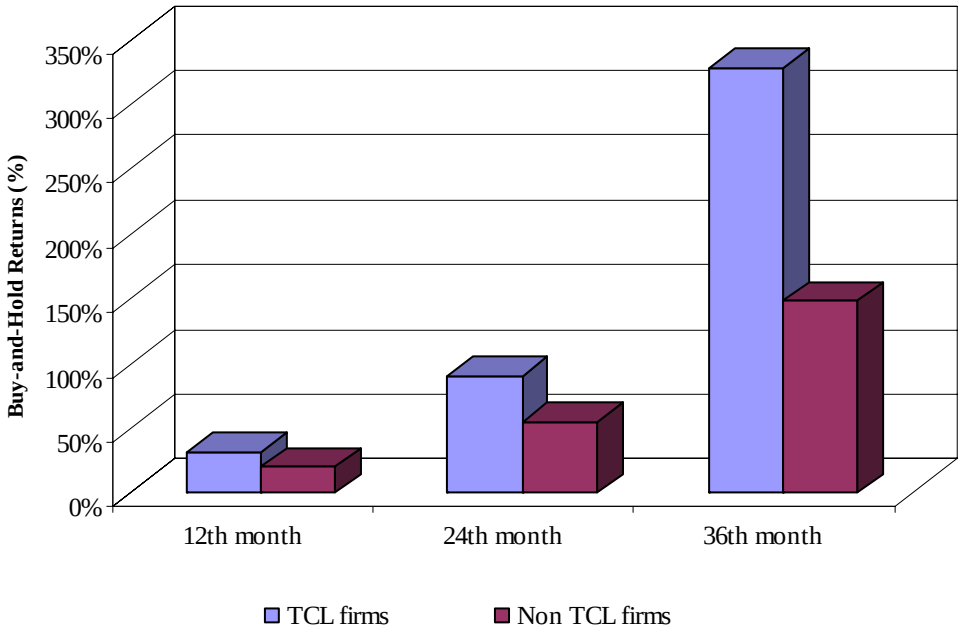

Table 6A: Change in market valuation

The table reports the difference-in-differences estimates for the market valuation. Panel A provides the average value for the market-to-book equity. Panel B provides the average value for the industry-adjusted market-to-book equity. Market-to-book equity is defined as the ratio of the market value to the book value of equity. Industry-adjusted market-to-book equity is calculated by subtracting from market-to-book equity the corresponding industry median value. TCL firms are the firms owned by the tycoons who are in public office. Non TCL firms are other firms. *Before* refers to the year before TCL took office, which is for 2001. *After* refers to the years after TCL took office, which is for 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 between TCL firms and Non TCL firms. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Market-to-book equity				
	Before	After	Difference [After-Before]	Wilcoxon test *z*-statistics
	(I)	(II)	(III) = (II) - (I)	
TCL firms	1.337	3.326	1.989**	
			(2.70)	
Non TCL firms	1.168	1.670	0.502**	
			(1.99)	
Difference	0.169	1.656**	**1.487****	2.326**
[TCL firms - Non TCL firms]	(0.42)	(1.98)	**(1.96)**	
Panel B: Industry-adjusted market-to-book equity				
TCL firms	0.510	1.899	1.389*	
			(1.91)	
Non TCL firms	0.438	0.361	-0.076	
			(-0.31)	
Difference	0.072	1.538*	**1.466****	1.821*
[TCL firms - Non TCL firms]	(0.19)	(1.90)	**(1.96)**	

Table 6B: Change in market valuation: regression analysis

The table reports coefficient estimates of OLS regressions. The dependent variables are market-to-book equity in Column (1) to (2), and industry-adjusted market-to-book equity in Column (3) to (4). Market-to-book equity is defined as the ratio of the market value to the book value of equity. Industry-adjusted market-to-book equity is calculated by subtracting from market-to-book equity the corresponding industry median value. TCL is a dummy variable which is set to one if the firm is owned by tycoons who are in public office, and zero otherwise. *After* is a dummy variable indicating the period after TCL took office, which is set to one for 2002 and 2003, 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.

	Market-to-book equity		Industry-adjusted market-to-book equity	
	(1)	(2)	(3)	(4)
TCL*After	1.487**	1.396**	1.466**	1.508**
	(1.96)	(1.98)	(1.96)	(2.00)
TCL	0.170	-0.182	0.073	0.092
	(0.42)	(-0.52)	(0.19)	(0.24)
After	0.502**	0.505**	-0.076	-0.046
	(1.98)	(2.15)	(-0.31)	(-0.20)
Size		-0.247		-0.122
		(-1.37)		(-0.70)
Leverage		0.790		0.900
		(1.32)		(1.48)
Firm growth		0.003		-0.0003
		(0.53)		(-0.05)
Constant	1.168***	2.312***	0.438	0.543
	(4.86)	(3.46)	(1.83)	(0.92)
Industry dummies	Yes	Yes	No	No
Number of observations	685	685	685	685
Adjusted R^2	0.034	0.072	0.020	0.029

Table 7A: The market reaction on the implementation of public policies

The table reports the results of the univariate tests of market reaction to the news on the implementation of the four public policies comparing the cumulative abnormal returns (CARs (-1,+1)) for TCL and non TCL firms. TCL firms are the firms that are owned by the tycoons who are in public office. Non TCL firms are other firms. The event date is defined as the first trading day after the announcement date. Panel B reports coefficients estimates from the OLS regressions of the CARs. TCL is a dummy variable that is set to one if the firm is owned by the tycoons who are in public 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 date	Event description		TCL firms	Non TCL firms	*t* -statistics (*t* -test)	*z* -statistics (Wilcoxon test)
Event 1: November 9, 2001	The Telecommunications Business Act was passed to limit foreign ownership at 25%.	Mean	2.285	-0.193	2.05**	3.02***
		[Median]	[2.660]	[-0.730]		
Event 2: January 21, 2003	A bill to introduce 10% tax on new entrants to the telecoms industry was passed	Mean	3.022	-1.040	2.69***	2.19**
		[Median]	[0.490]	[-0.705]		
Event 3: April 10, 2002	A TCL firm was granted a new concession contract and the concession fees were reduced	Mean	3.084	-0.420	2.35**	1.79*
		[Median]	[0.285]	[-1.060]		
Event 4: November 20, 2003	8-year tax holiday was granted to a TCL firm.	Mean	1.272	-2.299	2.52**	1.43
		[Median]	[0.105]	[-1.610]		

Table 7B: The market reaction on the implementation of public policies: regression analysis

The table reports coefficient estimates of OLS regressions. The dependent variable is the cumulative abnormal returns (CARs (-1,+1)). The event date is defined as the first trading day after the announcement date. TCL is a dummy variable that is set to one if the firm is owned by the tycoons who are in public 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)	(5)	(6)	(3)	(4)	(7)	(8)
TCL	0.025***	0.029***	0.041***	0.037**	0.035**	0.034**	0.036**	0.031**
	(3.02)	(3.35)	(2.69)	(2.41)	(2.35)	(2.21)	(2.52)	(2.13)
Size		-0.007		0.006		0.002		0.009
		(-1.00)		(0.77)		(0.31)		(1.36)
Leverage		0.024		0.011		0.011		0.010
		(1.26)		(0.71)		(0.76)		(0.72)
Constant	-0.002	0.015	-0.010**	-0.033	-0.004	-0.015	-0.023***	-0.057**
	(-0.51)	(0.62)	(-2.52)	(-1.37)	(-1.00)	(-0.63)	(-5.64)	(-2.52)
Adjusted R^2	0.025	0.041	0.027	0.025	0.020	0.015	0.022	0.026
Number of observations	162	162	227	227	227	227	242	242

Table 8A: Change in market share

The table reports the difference-in-differences estimates for 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 level. TCL firms are the firms owned by the tycoons who are in public office. Non TCL firms are other firms. *Before* refers to the year before TCL took office, which is for 2001. *After* refers to the years after TCL took office, which is for 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 between TCL firms and Non TCL firms. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	Before	After	Difference [After-Before]	Wilcoxon test *z*-statistics
	(I)	(II)	(III) = (II) - (I)	
TCL firms	0.275	0.356	0.081*	
			(1.78)	
Non TCL firms	0.288	0.278	-0.010	
			(-0.89)	
Difference	-0.013	0.078	**0.091****	1.112
[TCL firms - Non TCL firms]	(0.15)	(1.42)	**(2.01)**	

Table 8B: Change in market share: regression analysis

The table reports coefficient estimates of 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 level. TCL is a dummy variable that is set to one if the firm is owned by the tycoons who are public office, and zero otherwise. *After* is a dummy variable indicating the period after TCL took office, which that is set to one for 2002 and 2003. Profitability is 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	0.091**	0.087**
	(2.01)	(1.97)
TCL	-0.013	-0.019
	(-0.15)	(-0.22)
After	-0.010	-0.009
	(-0.89)	(-0.82)
Profitability		0.475***
		(2.70)
Leverage		0.028
		(0.40)
Constant	0.288***	0.238***
	(13.65)	(6.56)
Number of observations	557	557
Adjusted R^2	0.004	0.022