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POLITICAL CONNECTIONS AND STOCK RETURNS: THE CASE OF 2019 THAI GENERAL ELECTION

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Abstract

Political connections may increase the value of a company, its stock price, and consequently its stock returns. This study aims to assess the connection between political connections and stock returns in Thailand. The stock returns of companies listed on the Stock Exchange of Thailand and are included in the SET100 index were computed, and consequently incorporated into an event study in which the 2019 Thai general election serves as the event. The abnormal returns of companies connected with members of parliament elected under the first-past-the-post system do not differ from those of firms not connected around the election date but significantly differ when the results are officially announced. Those of companies connected with party-list members of parliament are slightly higher than those of firms not connected around the election but not different when the results are announced. They only differ when divided into the government and the opposition. Those of companies with connections to candidates for prime minister are significantly higher than those of companies without connections. This could suggest that connections with candidates for prime minister are more important for business operations than connections with members of parliament. The difference, however, dissipates after a few days, possibly due to political uncertainty after the election.

Keywords: Abnormal returns, Event study, Political ties

1. INTRODUCTION

Political connections could be essential when doing business. Politically connected companies may be granted special privileges in a variety of forms, which can boost their profits. Companies' profitability may therefore not depend on their characteristics but rather on their connections in a nation where political connections are crucial. The stock prices and stock returns of politically connected companies may then increase as a result of this increased profitability.

Political connections are prevalent in developing countries, particularly in Southeast Asia. According to a pioneering study by Fisman (2001), Indonesian companies associated with President Suharto have higher stock returns than other companies. Similar findings were found by Johnson and Mitton (2003) in Malaysia, where companies connected with Prime Minister Mahathir have greater stock returns. These results suggest that in Southeast Asian

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nations, political connections are very important. Therefore, it is probable that similar results will be found in Thailand.

In Thailand, Charumilind, Kali, and Wiwattanakantang (2006) found that companies with connections to prominent families have greater access to long-term financing. Therefore, it is expected that politically connected companies in Thailand also have better access to financing, perform better, and consequently have higher stock returns. Some prior research does exist examining the effect of political connections on stock returns in Thailand. For instance, Civilize et al. (2015) found that firms with political connections experienced higher stock returns during 1987–2008. On the other hand, Chancharat et al. (2019) found that firms with political connections tend to have lower firm performance. By focusing on this issue during an election held under Thailand's new constitution, this study provides an up-to-date insight into this phenomenon.

It is imperative to note that political connections are prevalent not only in developing nations but also in developed nations. For example, Coulomb and Sangnier (2014) found that the value of French companies with connections to elected French presidential candidates increased. Similarly, Acemoglu et al. (2016) found that the stock returns of US financial companies connected with Timothy Geithner increased following his nomination as the Secretary of the Treasury.

While some studies concentrate on connections with the highest political positions, others concentrate on connections with a broader range of politicians. Harymawan et al. (2019) found that Indonesian companies connected with ministers or members of parliament tend to have greater levels of Tobin's Q. Green and Homroy (2020) found that UK companies with close connections to members of parliament have higher profitability and values.

Other studies that might be relevant include Wu, Wu, and Rui (2012), Wu, Li, and Li (2013), and Chen, Li, Luo, and Zhang (2017), all of which found that Chinese businesses with political connections had a tendency to have higher value. Ang, Ding, and Thong (2013) found that the IPO stock prices of Singaporean companies in some sectors with political ties tend to be higher. Interestingly, Lehrer (2018) found that the stock returns of Israeli companies with political links went up during the 2015 legislative election.

This study employs the event study method, which was also employed by Acemoglu et al. (2016), to assess the effect of political connections on stock returns in Thailand. This study concentrates on SET100 companies as they represent more than half of the SET market capitalization. The 2019 General Election was chosen for this event study because it was the first election following the coup d'état of 2014. As candidates for prime minister were put forth and members of parliament elected, there were shifts in political connections during that election. Furthermore, it was the first time that both members of parliament and senators cast votes for the prime minister. Moreover, there was no clear winning party after the election, as the Election Commission delayed the official announcement of elected members of parliament, especially party-list members.

The remaining sections of this paper are structured as follows. The following section will provide a review of the related literature, while Section 3 will discuss the data and method. In Section 4, the results are presented, and in Section 5, the paper is concluded.

2. LITERATURE REVIEW

Prior studies on political connections can be divided into three categories. Those concerning top-level politicians, those concerning high-level politicians, and those concerning general politicians.

According to a pioneering study by Fisman (2001), Indonesian companies with connections to President Suharto are more valuable than those without connections. This study

showed that when there was a rumor about Suharto's health, the value of companies connected to Suharto plummeted in comparison to those without connections. In another study by Johnson and Mitton (2003), it was found that Malaysian companies with ties to Prime Minister Mahathir were more valuable than those without connections. This is because, when there was a capital control, companies with connections to Mahathir experienced a greater increase in value than those without connections. In a study by Coulomb and Sangnier (2014), it was found that French companies with connections with winning presidential candidates, experienced an increase in value relative to other companies. In a study conducted by Civilize et al. (2015), it was found that Thai firms with high-level political connections, particularly with prime ministers, experienced greater stock returns than other firms between 1987 and 2008.

According to a study by Acemoglu et al. (2016), the stock returns of financial companies with connections to Timothy Geithner were significantly amplified when he was nominated for the position of Secretary of the Treasury. Do, Lee, and Nguyen (2015) found that companies with connections to winning state governor candidates experienced an increase in their values compared to other companies.

In a study by Harymawan et al. (2019), it was found that Indonesian companies with connections to ministers or members of parliament have a greater Tobin's Q than other companies. A higher Tobin's Q indicates a higher value and, as a result, a higher stock price and greater returns. According to Green and Homroy (2020), UK companies with connections to members of parliament are more profitable and have higher value than other companies. Akey (2015) found that US companies with connections to winning congressional candidates have higher stock returns than other companies.

In a study conducted by Wu, Wu, and Rui (2012), it was found that Chinese companies with links to the government or military received greater assistance than others. Such assistance could raise their values above those of others. Wu, Li, and Li (2013) found that the IPO stocks of Chinese companies with government connections tend to be higher priced than others. Chen, Li, Luo, and Zhang (2017) also found that Chinese firms with political links had higher values than others.

According to Ang, Ding, and Thong (2013), among industries that are highly regulated, the IPO stocks of Singaporean companies with government connections tended to be more expensive than others. Lehrer (2018) found that Israeli companies whose directors were politicians or former politicians experienced an increase in value during the 2015 legislature election. Goldman, Rocholl, and So (2009) also found that US companies with ties to winning parties experienced an increase in their values and stock returns during the 2000 election.

3. DATA AND METHOD

3.1. Data

This study used daily data obtained via SETSMART from the Stock Exchange of Thailand. The data pertain to SET100 companies during the 2019 General Election. Daily stock returns were calculated as the percentage change in stock prices between trading days. Data on the SET index was also collected for use during the event study. In addition to providing data on stock prices and indices, SETSMART also provides data on various aspects for each company. Specifically, the names of company directors were obtained in order to determine their connections to politics. Company sizes and financial ratios, including the return on equity and debt to equity ratios, were obtained in order to include them as control variables in the regression analysis.

In addition, the study collected data from the Office of the Election Commission of Thailand in order to determine the connections between company directors and politicians.

Specifically, the names of elected members of parliament under the first-past-the-post system, elected members of parliament under the party-list system, and candidates for prime minister were compiled. Members of parliament elected via the first-past-the-post system were also referred to as constituency members of parliament. There are 350 constituencies, or districts, for elections. In each constituency, the candidate who receives the most votes is elected and granted a seat. In contrast, under the party-list system, 150 members of parliament are elected differently. The number of party-list seats each party receives depends on the number of votes received and the number of elected constituencies countrywide. A party that receives a smaller number of constituencies than the proportion of votes it received will be granted a party-list seat until the overall number of seats matches the proportion of votes.

Due to the fact that serving Thai politicians are not allowed to serve on the boards of companies with government contracts, political connections are formed via family members. Thus, connections were determined using surnames in the same fashion as Civilize et al. (2015). Specifically, a company was considered politically connected if at least one of its board members shared the same surname as one of the politicians who were elected. It is important to note that only family names are considered here. Other connections involving nominees could not be uncovered, which is a limitation of this study.

3.2. Method

In accordance with Acemoglu et al. (2016), this study employs the event study method. When conducting an event study, the event date must be set, in this case the 2019 General Election was set to be the baseline case. Because 24 March 2019 was a Sunday, the following trading day, 25 March, was used as the event date. The estimation window was set to be between 270 trading days (or about one year and one month) and 20 trading days (or about one month) before the event date. Alternative event dates were also used, such as 7 and 8 May, when the Election Commission officially announced the list of members of parliament.

In this event study, abnormal returns were computed using the single index model. In this model, a normal return depends on the market return. Specifically, a normal return is given by:

$$R_{it} = \alpha_i + \beta_i R_{Mt} + e_{it},$$

where *i* represents a stock, *t* represents time, *R* is a stock return, R_M is the market return, and e is the residual. Using data from the estimation window, the above equation was calculated to give an estimate. An abnormal return can then be calculated as:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{Mt}),$$

where AR is an abnormal return, α and β are estimated coefficients. From abnormal returns, a cumulative abnormal return could then be computed as:

$$CAR_i(0,T) = \sum_{t=0}^{T} AR_{it} \text{ or } CAR_i(-T,0) = \sum_{t=-T}^{0} AR_{it},$$

where *CAR(0,T)* is a cumulative abnormal return from the event date until *T* days after that, and *CAR(-T,0)* is a cumulative abnormal return from *T* days before the event date until that date. The cumulative abnormal return was then regressed on the variable indicating political connections and other control variables. The regression model can be written as:

$$CAR_i = \gamma_0 + \gamma_1 Connections_i + X_i'\delta + \varepsilon_{it},$$

where *Connections* is a dummy variable signifying political connections and *X* is a vector of control variables, including *Size*, *ROE*, and *DE*. *Size* is the natural logarithm of total assets from the last quarter of 2018. *ROE* and *DE* are the return on equity and debt to equity ratios from the last quarter of 2018. They capture the profitability and leverage of the company.

The variable indicating political connections is constructed from the names of company directors on Friday, 22 March 2019, as well as the names of elected members of parliament

under the first-past-the-post system, elected members of parliament under the party-list system, or candidates for prime minister.

FPP MP Connections followed the names of elected members of parliament under the first-past-the-post system. This dummy variable held a value of one if a company director shared the same surname as an elected member of parliament. The variable was later divided into two variables, *Govt FPP MP Connections* and *Opp FPP MP Connections*, based on the sides on which elected members of parliament sit.

Prsp Party-List MP Connections followed the fifty names of prospective members of parliament under the party-list system. As of 25 March 2019, it was unresolved how many seats each party would receive, so the first ten candidates from each of the top five parties were used. The top five parties were used because each of them received more than three million votes and their number of votes was significantly higher than the sixth party. In addition, the first ten candidates were the most likely to secure the positions. This dummy variable held a value of one if a company director shared the same surname as any of the fifty prospective members of parliament.

Actl Party-List MP Connections followed the names of elected members of parliament under the party-list system. This dummy variable held a value of one if a company director shared the same surname as an elected member of parliament. Later, this will be divided into two variables, *Actl Govt Party-List MP Connections* and *Actl Opp Party-List MP Connections*, based on the sides on which elected members of parliament sit.

PM Candidate Connections followed the names of candidates for prime minister. Similar to the above variable, as of 25 March 2019, it was undetermined which party would form the government, candidates from the top five parties were therefore used. This dummy variable held a value of one if a company director shared the same surname as a prime minister candidate.

Table 1 presents summary statistics. The descriptions of all variables are offered in Table A1 of the Appendix.

Table 1 Summary Statistics

Variable	Mean	Minimum	Median	Maximum	Standard Deviation	Obs
CAR(-3,0)	-0.00087	-0.07730	-.0001292	0.053067	0.021351	100
CAR(-1,0)	-0.00185	-0.05595	-.0016934	0.048690	0.016662	100
CAR(0,0)	0.001833	-0.03106	0.0003772	0.046052	0.011644	100
CAR(0,1)	0.000769	-0.03092	0.0006755	0.044432	0.013203	100
CAR(0,3)	0.001930	-0.04493	0.0005026	0.067135	0.019025	100
CAR(0,5)	0.004811	-0.04412	0.0019515	0.061169	0.025240	100
CAR2(-3,0)	0.001565	-0.06911	-.0028284	0.152156	0.034835	100
CAR2(-1,0)	-0.00150	-0.05084	-.0034484	0.106567	0.024492	100
CAR2(0,0)	-0.00147	-0.03529	-.0014671	0.061876	0.014941	100
CAR2(0,1)	-0.00556	-0.05768	-.002355	0.063469	0.021327	100
CAR2(0,3)	-0.00956	-0.16381	-.0048731	0.096200	0.033888	100
CAR2(0,5)	-0.01682	-0.23832	-.0059636	0.202381	0.057281	100
CAR3(-3,0)	-0.00410	-0.08986	-.0047294	0.131451	0.032680	100
CAR3(-1,0)	-0.00553	-0.05760	-.0023829	0.063303	0.021312	100
CAR3(0,0)	-0.00408	-0.05075	-.001616	0.026506	0.015391	100
CAR3(0,1)	-0.00410	-0.09203	-.0007844	0.034933	0.019416	100

Table 1 (Continued)

Variable	Mean	Minimum	Median	Maximum	Standard Deviation	Obs
CAR3(0,3)	-0.01099	-0.17081	-.0023276	0.044929	0.036491	100
CAR3(0,5)	-0.01789	-0.30261	-.0055531	0.147393	0.061181	100
FPP MP Connections	0.05	0	0	1	0.219043	100
Prsp Party-List MP Connections	0.06	0	0	1	0.238683	100
Actl Party-List MP Connections	0.08	0	0	1	0.272660	100
PM Candidate Connections	0.02	0	0	1	0.140705	100
Govt FPP MP Connections	0.03	0	0	1	0.171447	100
Opp FPP MP Connections	0.03	0	0	1	0.171447	100
Actl Govt Party-List MP Connections	0.07	0	0	1	0.256432	100
Actl Opp Party-List MP Connections	0.01	0	0	1	0.1	100
Size	18.07663	14.38995	17.85359	21.88245	1.534789	100
ROE	15.2104	-44.51	14.085	64.78	12.68113	100
DE	1.9559	0.16	1.17	12.14	2.126496	100

Note. CAR utilizes 25 March 2019 as the event date. *CAR2* and *CAR3* utilize 7 and 8 May 2019 as the event dates, respectively.

As shown in Table 1, cumulative abnormal returns are generally negative before and after the event dates but consistently positive after Monday, 25 March 2019. Five percent of companies had connections to members of parliament who were elected through the first-past-the-post system; six percent of companies had connections to prospective members of parliament from the party-list system; eight percent of companies had connections to actual members of parliament who were elected through the party-list system; and two percent of companies had connections to candidates for prime minister.

4. RESULTS AND DISCUSSION

4.1. Baseline Results

This subsection presents the baseline results for the event date of Monday, 25 March 2019. Tables 2–4 show the results of regressions of cumulative abnormal returns on political connections. Regarding the political connections, the names of prospective members of parliament from the first-past-the-post system and the party-list system were used in the regressions shown in Tables 2 and 3, respectively. The names of candidates for prime minister,

were used in the regressions in Table 4. The cumulative abnormal return, which is the dependent variable, varies from three days before the event date in the first regression specification, to five days after the event date in the last regression specification. In all regression specifications, size, return on equity, and debt to equity ratio were included as control variables.

According to Table 2, *FPP MP Connections* did not enter the regression significantly. In particular, the coefficients of *FPP MP Connections* were not statistically significant in all models. This means that the abnormal returns of companies connected to members of parliament from the first-past-the-post system were no different from those of non-connected

Table 2 Cumulative Abnormal Returns and Political Connections—FPP MPs

	(1)	(2)	(3)	(4)	(5)	(6)
	CAR(-3,0)	*CAR(-1,0)*	*CAR(0,0)*	*CAR(0,1)*	*CAR(0,3)*	*CAR(0,5)*
FPP MP	-0.012	-0.007	-0.001	0.006	0.004	0.006
Connections	(0.010)	(0.007)	(0.005)	(0.006)	(0.009)	(0.011)
Size	0.003	0.004**	-0.001	-0.001	-0.003	-0.003
	(0.002)	(0.001)	(0.001)	(0.001)	(0.002)	(0.002)
ROE	0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
DE	0.000	-0.001	-0.000	-0.000	-0.000	-0.001
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Constant	-0.052	-0.061**	0.024	0.022	0.052	0.068
	(0.030)	(0.023)	(0.017)	(0.019)	(0.027)	(0.035)
Observations	100	100	100	100	100	100
R^2	0.051	0.094	0.025	0.030	0.055	0.073

Note. The values in parentheses are standard errors. *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent levels respectively.

Table 3 Cumulative Abnormal Returns and Political Connections—Prospective Party-List MPs

	(1)	(2)	(3)	(4)	(5)	(6)
	CAR(-3,0)	*CAR(-1,0)*	*CAR(0,0)*	*CAR(0,1)*	*CAR(0,3)*	*CAR(0,5)*
Prsp Party-List	0.006	0.011	0.008	0.013**	0.011	0.015
MP Connections	(0.009)	(0.007)	(0.005)	(0.005)	(0.008)	(0.010)
Size	0.003	0.004**	-0.001	-0.001	-0.002	-0.003
	(0.002)	(0.001)	(0.001)	(0.001)	(0.001)	(0.002)
ROE	0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
DE	-0.000	-0.002	-0.000	-0.000	-0.001	-0.002
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Constant	-0.054	-0.064**	0.022	0.019	0.049	0.064
	(0.030)	(0.023)	(0.017)	(0.018)	(0.027)	(0.035)
Observations	100	100	100	100	100	100
R^2	0.042	0.111	0.048	0.078	0.072	0.089

Note. The values in parentheses are standard errors. *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent levels respectively.

companies. This could imply that connections with members of parliament from the first-past-the-post system are not essential for business operations.

According to Table 3, *Prsp Party-List MP Connections* enters the regression positively and sometimes significantly. Particularly, the coefficients of *Prsp Party-List MP Connections* are always positive but statistically significant only in the fourth model, which uses *CAR(0,1)*. This means that the abnormal returns of companies connected to prospective members of parliament from the party-list system are significantly higher than those of non-connected companies for only a brief period of time.

This could mean that connections with members of parliament from the party-list system are of greater importance than those with members of parliament from the first-past-the-post system. Prominent politicians, like those on the party boards, can be seen running on the party list rather than via the first-past-the-post system. In addition, they are likely to become cabinet members if their parties can form a government. However, the importance may be quite limited, so that the difference disappears after a day or two. This may even be the result of political uncertainty occurring after the event date, when it was unresolved how many seats each party would obtain.

This positive effect of connections with party-list members of parliament is consistent with the findings of Green and Homroy (2020), who found that UK companies with connections to members of parliament are more valuable than those without. This is also in accordance with the findings of Akey (2015), who found US companies connected with members of Congress experienced greater stock returns during elections than those without connections. Again, this illustrates the importance of connections with party-list members of parliament in conducting business.

Table 4 Cumulative Abnormal Returns and Political Connections—PM Candidates

	(1)	(2)	(3)	(4)	(5)	(6)
	CAR(-3,0)	*CAR(-1,0)*	*CAR(0,0)*	*CAR(0,1)*	*CAR(0,3)*	*CAR(0,5)*
PM Candidate	0.032*	0.031**	0.020**	0.019*	0.030*	0.026
Connections	(0.015)	(0.011)	(0.008)	(0.009)	(0.013)	(0.018)
Size	0.003	0.004***	-0.001	-0.001	-0.002	-0.003
	(0.002)	(0.001)	(0.001)	(0.001)	(0.001)	(0.002)
ROE	0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
DE	-0.000	-0.002	-0.000	-0.000	-0.001	-0.001
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Constant	-0.056	-0.064***	0.022	0.021	0.049	0.065
	(0.030)	(0.022)	(0.016)	(0.019)	(0.026)	(0.035)
Observations	100	100	100	100	100	100
R^2	0.082	0.155	0.081	0.060	0.102	0.091

Note. The values in parentheses are standard errors. *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent levels respectively.

As shown in Table 4, *PM Candidate Connections* enters the regression positively and almost always significantly. Particularly, the coefficients of *PM Candidate Connections* are always positive and statistically significant in the first five models. This means that the abnormal returns of companies connected to candidates for prime minister are higher than those of non-connected companies during a short period of time. This could imply that, in doing business, connections with candidates for prime minister are of greater significance than

connections with members of parliament. This is comparable to the findings of Civilize et al. (2015), who found that connections with prime ministers are more valuable than those with lower-level politicians. Furthermore, it is interesting that the positive effect begins prior to the event date. This could be caused by pre-election speculation surrounding certain candidates. Again, the difference disappears after a few days, possibly as a result of political uncertainty that arose after the date of the election, when it was still unclear which party would form the government. This disappearance of differences is similar to one of the cases described by Acemoglu et al. (2016), in which differences ceased to exist after ten trading days.

This positive effect of connections with top politicians is consistent with the findings of Fisman (2001) and Johnson and Mitton (2003), who found that Indonesian and Malaysian companies with connections to the president or prime minister tend to be more valuable and have higher stock returns than other companies. This is also consistent with the findings of Coulomb and Sangnier (2014), who found that French companies with connections to winning presidential candidates experienced a greater increase in value than other companies.

4.2. Results with Alternative Event Dates

This subsection presents the results for alternative event dates. Since the Election Commission had not officially announced the list of members of parliament by 25 March 2019, this subsection uses the days that the Election Commission officially announced the lists, 7 and 8 May 2019, as the event dates. Tables 5–6 show the results of regressions. The names of the elected members of parliament from the first-past-the-post system and the party-list system were used in the regressions shown in Tables 5 and 6, respectively.

As shown in Table 5, *FPP MP Connections* enters the regression positively and often significantly. Particularly, the coefficients of *FPP MP Connections* are always positive and statistically significant in all models, except the fourth and fifth models. This effect was insignificant when the event date was 25 March, but it becomes significant on 7 May. This is probably because members of parliament from the first-past-the-post system were not seen as important until they were officially approved by the Election Commission.

Table 5 Cumulative Abnormal Returns and Political Connections—7 May and FPP MPs

	(1)	(2)	(3)	(4)	(5)	(6)
	CAR2(-3,0)	*CAR2(-1,0)*	*CAR2(0,0)*	*CAR2(0,1)*	*CAR2(0,3)*	*CAR2(0,5)*
FPP MP Connections	0.032*	0.025*	0.015**	0.017	0.023	0.060**
	(0.016)	(0.011)	(0.007)	(0.009)	(0.015)	(0.025)
Size	-0.000	0.001	0.001	0.004**	0.006*	0.011**
	(0.003)	(0.002)	(0.001)	(0.002)	(0.003)	(0.004)
ROE	-0.000	-0.000	0.000	0.000	0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
DE	0.001	0.001	0.001	-0.000	0.000	0.000
	(0.002)	(0.001)	(0.001)	(0.001)	(0.002)	(0.003)
Constant	0.009	-0.028	-0.025	-0.075**	-0.118**	-0.215**
	(0.049)	(0.034)	(0.021)	(0.029)	(0.047)	(0.076)
Observations	100	100	100	100	100	100
R^2	0.060	0.107	0.106	0.105	0.102	0.160

Note. The values in parentheses are standard errors. *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent levels respectively.

As shown in Table 6, *Actl Party-List MP Connections* does not enter the regression significantly. Specifically, the coefficients of *Actl Party-List MP Connections* are not statistically significant in all models. This effect was significant when the event date was 25 March, but it becomes insignificant for 8 May. This is probably because the importance of members of parliament from the party-list system was recognized from 25 March.

The results of this subsection may indicate that the importance of connections with high-ranking politicians is recognized earlier than that of connections with lower-ranking politicians.

Table 6 Cumulative Abnormal Returns and Political Connections—8 May and Actual Party-List MPs

	(1) *CAR3 (-3,0)*	(2) *CAR3 (-1,0)*	(3) *CAR3(0,0)*	(4) *CAR3(0,1)*	(5) *CAR3(0,3)*	(6) *CAR3(0,5)*
Actl Party-List MP Connections	0.013	0.013	0.002	0.009	0.005	0.003
	(0.012)	(0.008)	(0.006)	(0.007)	(0.013)	(0.022)
Size	0.002	0.004**	0.003*	0.003	0.007**	0.012**
	(0.003)	(0.002)	(0.001)	(0.002)	(0.003)	(0.005)
ROE	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
DE	0.001	-0.000	-0.001	0.000	-0.000	-0.001
	(0.002)	(0.001)	(0.001)	(0.001)	(0.002)	(0.003)
Constant	-0.043	-0.080**	-0.051**	-0.054	-0.136**	-0.218**
	(0.046)	(0.030)	(0.022)	(0.027)	(0.051)	(0.085)
Observations	100	100	100	100	100	100
R^2	0.063	0.103	0.056	0.075	0.078	0.096

Note. The values in parentheses are standard errors. *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent levels respectively.

Table 7 Cumulative Abnormal Returns and Political Connections—7 May and Government FPP MPs

	(1) *CAR2 (-3,0)*	(2) *CAR2 (-1,0)*	(3) *CAR2(0,0)*	(4) *CAR2(0,1)*	(5) *CAR2(0,3)*	(6) *CAR2(0,5)*
Govt FPP MP Connections	0.039	0.033**	0.025***	0.032**	0.043*	0.101***
	(0.020)	(0.014)	(0.008)	(0.012)	(0.019)	(0.031)
Size	-0.000	0.002	0.001	0.004**	0.006**	0.012**
	(0.003)	(0.002)	(0.001)	(0.002)	(0.003)	(0.004)
ROE	-0.000	-0.000	0.000	0.000	0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
DE	0.000	0.001	0.001	-0.000	-0.000	-0.001
	(0.002)	(0.001)	(0.001)	(0.001)	(0.002)	(0.003)
Constant	0.004	-0.033	-0.028	-0.079**	-0.124**	-0.228***
	(0.049)	(0.034)	(0.020)	(0.029)	(0.046)	(0.075)
Observations	100	100	100	100	100	100
R^2	0.055	0.111	0.134	0.140	0.128	0.196

Note. The values in parentheses are standard errors. *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent levels respectively.

4.3. Results with Government and Opposition Connections

This subsection presents the results according to when the connections were separated into those with the government and those with the opposition. Tables 7–10 show the results of the respective regressions. The names of the first-past-the-post members of parliament from the government and the opposition were used in the regressions shown in Tables 7 and 8, respectively. The names of the party-list members of parliament from the government and the opposition were used in the regressions shown in Tables 9 and 10, respectively.

Table 8 Cumulative Abnormal Returns and Political Connections—7 May and Opposition FPP MPs

	(1) *CAR2 (-3,0)*	(2) *CAR2 (-1,0)*	(3) *CAR2(0,0)*	(4) *CAR2(0,1)*	(5) *CAR2(0,3)*	(6) *CAR2(0,5)*
Opp FPP MP Connections	0.065***	0.036**	0.023**	0.021	0.033	0.079**
	(0.020)	(0.014)	(0.008)	(0.012)	(0.019)	(0.031)
Size	-0.000	0.001	0.001	0.004**	0.006*	0.011**
	(0.003)	(0.002)	(0.001)	(0.002)	(0.003)	(0.004)
ROE	-0.000	-0.000	0.000	0.000	0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
DE	0.001	0.002	0.001	0.000	0.001	0.001
	(0.002)	(0.001)	(0.001)	(0.001)	(0.002)	(0.003)
Constant	0.005	-0.030	-0.026	-0.076**	-0.120**	-0.219**
	(0.047)	(0.033)	(0.020)	(0.029)	(0.047)	(0.076)
Observations	100	100	100	100	100	100
R^2	0.122	0.121	0.123	0.105	0.108	0.162

Note. The values in parentheses are standard errors. *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent levels respectively.

As shown in Tables 7 and 8, *Govt FPP MP Connections* and *Opp FPP MP Connections* enter the regression positively and often significantly. Particularly, the coefficients of *Govt FPP MP Connections* are always positive and statistically significant in all models, except the first, while the coefficients of *Opp FPP MP Connections* are always positive and statistically significant in all models, except the fourth and fifth. This may indicate that businesses value connections with both government and opposition members of parliament from the first-past-the-post system. This contradicts the findings of Civilize et al. (2015), who found that connections with government-side members of parliament are more valuable than those with opposition-side members.

Table 9 Cumulative Abnormal Returns and Political Connections—8 May and Actual Government Party-List MPs

	(1) *CAR3 (-3,0)*	(2) *CAR3 (-1,0)*	(3) *CAR3(0,0)*	(4) *CAR3(0,1)*	(5) *CAR3(0,3)*	(6) *CAR3(0,5)*
Actl Govt Party-List MP Connections	0.023	0.019*	0.012*	0.020**	0.026*	0.047*
	(0.014)	(0.009)	(0.006)	(0.008)	(0.013)	(0.021)

Table 9 (Continued)

	(1) *CAR3 (-3,0)*	(2) *CAR3 (-1,0)*	(3) *CAR3(0,0)*	(4) *CAR3(0,1)*	(5) *CAR3(0,3)*	(6) *CAR3(0,5)*
Size	-0.000	0.002	0.001	0.004**	0.006**	0.011**
	(0.003)	(0.002)	(0.001)	(0.002)	(0.003)	(0.004)
ROE	-0.000	-0.000	0.000	0.000	0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
DE	0.001	0.001	0.001	0.000	0.000	0.000
	(0.002)	(0.001)	(0.001)	(0.001)	(0.002)	(0.003)
Constant	0.005	-0.032	-0.027	-0.079**	-0.123**	-0.223***
	(0.050)	(0.034)	(0.021)	(0.029)	(0.046)	(0.077)
Observations	100	100	100	100	100	100
R^2	0.047	0.096	0.099	0.131	0.119	0.150

Note. The values in parentheses are standard errors. *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent levels respectively.

Table 10 Cumulative Abnormal Returns and Political Connections—8 May and Actual Opposition Party-List MPs

	(1) *CAR3 (-3,0)*	(2) *CAR3(-1,0)*	(3) *CAR3(0,0)*	(4) *CAR3(0,1)*	(5) *CAR3(0,3)*	(6) *CAR3(0,5)*
Actl Opp Party-List MP Connections	-0.027	-0.010	-0.003	-0.041	-0.091**	-0.207***
	(0.039)	(0.027)	(0.017)	(0.023)	(0.036)	(0.058)
Size	-0.001	0.001	0.001	0.003	0.005	0.008
	(0.003)	(0.002)	(0.001)	(0.002)	(0.003)	(0.004)
ROE	-0.000	-0.000	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
DE	0.001	0.002	0.001	0.000	0.001	0.002
	(0.002)	(0.001)	(0.001)	(0.001)	(0.002)	(0.003)
Constant	0.016	-0.026	-0.024	-0.066*	-0.099*	-0.171**
	(0.051)	(0.035)	(0.021)	(0.030)	(0.046)	(0.075)
Observations	100	100	100	100	100	100
R^2	0.023	0.060	0.055	0.106	0.140	0.214

Note. The values in parentheses are standard errors. *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent levels respectively.

As shown in Tables 9 and 10, *Actl Govt Party-List MP Connections* enters the regression positively and almost always significantly, while *Actl Opp Party-List MP Connections* enters the regression negatively and sometimes significantly. Specifically, the coefficients of *Actl Govt Party-List MP* are always positive and statistically significant in all models, except the first, while the coefficients of *Actl Opp Party-List MP Connections* are negative and statistically significant in the last two models. This may indicate that businesses value connections with party-list members of parliament from the government more than those with party-list members of parliament from the opposition. This is similar to the findings of Civilize et al. (2015), who noticed that connections with government-side members of parliament are more valuable than those with opposition-side members.

5. CONCLUSIONS AND RECOMMENDATIONS

The value of a company, its stock price, and thus its stock returns may be boosted by political connections. Therefore, the objective of this study was to assess the relationship between political connections and stock returns in Thailand. This study calculated the stock returns of companies included in the SET100 index, consequently using them in an event study. This event study focused on the 2019 General Election as it was the first election after the 2014 coup d'état. The names of the elected members of parliament under the first-past-the-post system, elected members of parliament under the party-list system, and candidates for prime minister were compiled and combined with the names of company directors to create measures of political connections.

The findings indicate that the abnormal returns of companies connected to members of parliament elected via the first-past-the-post system are no different from those of companies that are not connected around the election date but are significantly different once the results are officially announced. The abnormal returns of companies connected to members of parliament elected under the party-list system are slightly greater than those of companies not connected around the election date but not generally different when the results are announced. They differ when divided into connections with the government and the opposition. The abnormal returns of companies connected to government party-list members are greater than those of companies connected to opposition party-list members, which become negative. This could imply that connections with party-list members of parliament on the government side are more valuable than connections with party-list members of parliament on the opposition side.

The results also indicate that the abnormal returns of companies with connections to candidates for prime minister are significantly greater than those of companies with no such connections. This emphasizes the importance of connections with candidates for prime minister over connections with members of parliament in terms of business operations. However, the difference disappears after a few days, possibly due to political uncertainty that arose after the election date.

As connections with politicians may affect stock prices and returns, particularly during election periods, it may be necessary for investors to use caution when dealing with the stocks of companies with political connections. Stock prices could be affected by the political uncertainty that exists during such times.

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APPENDIX

Table A1 Variable descriptions

Variable	Description
CAR(0,T)	A cumulative abnormal return from the event date, Monday, 25 March 2019, until T days after that.
CAR(-T,0)	A cumulative abnormal return from T days before that the event date until that date, Monday, 25 March 2019.
CAR2(0,T)	A cumulative abnormal return from the event date, Tuesday, 7 May 2019, until T days after that.
CAR2(-T,0)	A cumulative abnormal return from T days before that the event date until that date, Tuesday, 7 May 2019.
CAR3(0,T)	A cumulative abnormal return from the event date, Wednesday, 8 May 2019, until T days after that.
CAR3(-T,0)	A cumulative abnormal return from T days before that the event date until that date, Wednesday, 8 May 2019.
FPP MP Connections	A dummy variable indicating political connections, which takes a value of one when a company director shares the same surname as an elected member of parliament from the first-past-the-post system.
Prsp Party-List MP Connections	A dummy variable indicating political connections, which takes a value of one when a company director shares the same surname as any of the fifty prospective members of parliament from the party-list system.
Actl Party-List MP Connections	A dummy variable indicating political connections, which takes a value of one when a company director shares the same surname as an elected member of parliament from the party-list system.
PM Candidate Connections	A dummy variable indicating political connections, which takes a value of one when a company director shares the same surname as a prime minister candidate.
Govt FPP MP Connections	A dummy variable indicating political connections, which takes a value of one when a company director shares the same surname as an elected government-side member of parliament from the first-past-the-post system.
Opp FPP MP Connections	A dummy variable indicating political connections, which takes a value of one when a company director shares the same surname as an elected opposition-side member of parliament from the first-past-the-post system.
Actl Govt Party-List MP Connections	A dummy variable indicating political connections, which takes a value of one when a company director shares the same surname as an elected government-side member of parliament from the party-list system.
Actl Opp Party-List MP Connections	A dummy variable indicating political connections, which takes a value of one when a company director shares the same surname as an elected opposition-side member of parliament from the party-list system.
Size	The natural logarithm of total assets from the last quarter of 2018.
ROE	The return on equity from the last quarter of 2018.
DE	The debt-to-equity ratio from the last quarter of 2018.