

Political Connection and Firm Value

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We study the effect of political connection (PC) on company value in an environment where low PC is due to better institutions and not confounded by favorable social/cultural factors. We find that in Singapore, the only country that fits this description, PC in general adds little to the value of a company. However, in industries that are subject to more stringent government regulations, PC appears to be somewhat important. Robustness checks show that alternative PC variables give rise to similar results, and the addition of control variables do not drastically change the findings. Politically connected firms have higher managerial ownership and tend to be smaller than non-PC firms, rendering them more susceptible to poorer governance practices. We show that the presence of politically connected directors somewhat neutralizes such potential negative effects. PC firms are associated with good governance practices such as nonduality in their chairman and chief executive officer positions and fewer executive directors.

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I. Introduction

While the value of political connection to firms has received considerable research interest (Goldman, Rocholl, and So 2009; Imai 2006; Khwaja and Mian 2004; Ang and Boyer 2007), the question of whether political connection enhances firm value has mixed findings.¹ When the value of political connection is found to be high, they are often in countries with higher levels of official corruption. We do not know whether political connection is as valuable in the absence of political corruption, the question being, is political corruption a precondition for political connection to be valuable? To test this hypothesis, we examine the impact

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¹Examining 47 countries, Faccio (2006) finds a positive relation between political connection and firm value. Specifically, she finds that political connection is common in countries that are highly corrupt. Goldman, Rocholl, and So (2009) show positive abnormal stock returns following the announcement of a politically connected individual nominated to the board. Fan, Wong, and Zhang (2007), however, find a negative relation between politically connected CEOs and post-IPO performance in the People's Republic of China.

of politically connected directors on the value of firms operating in an environment where the perceived level of corruption is comparatively low.²

Singapore was selected for the study because it is unique among low corruption countries. Unlike other low corruption countries where the results may be attributable to shared social and/or cultural factors with neighboring countries, Singapore has a distinctive need for much stronger institutions as it is surrounded by countries that are perceived to be inherently more corrupt. For example, the 2010 edition of the global corruption perceptions index released by Transparency International lists Denmark, New Zealand, and Singapore jointly as the world's least corrupt countries. New Zealand's closest neighbor, Australia, is ranked eighth on the same index. Denmark, together with neighbors Sweden and Finland, are ranked within the top five in 2010. By contrast, Singapore's immediate neighbors in Southeast Asia include Malaysia (ranked #56), Thailand (ranked #78), Indonesia (ranked #110), Viet Nam (ranked #116), and the Philippines (ranked #134).

Furthermore, the social and cultural background of Singaporeans, as derived from their ethnic background, also does not favor low corruption. Of the countries of ancestral origin among Singapore's three major ethnic groups (Chinese, Malays, and Indians), the People's Republic of China (PRC) ranked #78, Malaysia ranked #56, and India ranked #87. Thus, even if we find political connection not benefiting private firms with connections in both Scandinavian countries and Singapore, the underlying causes are inherently different. Singapore has to rely on having strong institutions to achieve low corruption, one that is not confounded by social and cultural factors. These unique factors allow for a natural experiment to be conducted on how institutions may limit the role of political influence in businesses. Specifically, we examine this issue within the context of post-initial public offering (IPO) firms in Singapore to show that rent-seeking through politically connected directors is not viable in countries viewed to be very clean, such as in Singapore, and where the legal and political institutions are fair, transparent, and effective.³

Previous studies did not specifically investigate low corruption countries nor did they conclusively argue that the effect of political connection is independent of corruption. We investigate the value of political connection under a political regime with low perceived corruption and document that firms operating under such a political environment benefit little—except for firms in highly regulated industries—from their political connection. This new finding, in contrast to those in previous studies that find strong value in political connection under a corrupt

²According to Transparency International, an international nongovernment organization addressing corruption including but not limited to political corruption, Singapore together with Denmark and New Zealand ranks as the cleanest country out of 178 in the world in 2010, with a corruption perceptions index of 9.3. Finland and Sweden complete the top five least corrupt countries that year.

³It has been well documented in the existing literature (e.g., Ritter 1991, Ritter and Welch 2002) that firms with a higher level of underpricing during an initial public offering (IPO) tend to underperform over the long run. In the present study, politically connected firms in the sample have a lower, but not statistically significant, level of underpricing than nonpolitically connected firms.

political regime, clarifies the role of political corruption and the channel through which values are created for such firms and/or their managers. A corrupt political environment increases the probability that firms' connected politicians are willing and able to extract rents from the public and competitors on behalf of their firms. Such an environment also gives politically connected individuals certain incentives, as they may receive a share of the extracted rents in the form of personal payoffs or campaign contributions with low perceived personal risks.

Politically connected firms may benefit through easier access to debt financing, lower taxes, or stronger market power. Such benefits are usually greater when the firm operates in a country with a high level of corruption among its officials, low protection of property rights, a highly interventionist government, or a nondemocratic government (Faccio 2006). In addition to gaining economic benefits, some firms may appoint politically connected directors for their knowledge and experience with government procedures, their insights into government actions, their ability to enlist the government for the firm's interest at the expense of competitors, or to forestall government action inimical to the firm (Agrawal and Knoeber 2001). Goldman, Rocholl, and So (2009) find that companies connected to the United States (US) Republican Party experience an increase in value following the Republican Party's win in the 2000 presidential election, while companies connected to the Democratic Party saw a stock price plunge. In Singapore, firms may appoint politically connected directors to their board to signal stronger corporate governance. This argument is in line with the finding of Ang and Ding (2006) that government-linked companies in Singapore are associated with stronger corporate governance and higher firm valuations.

Political connection may add value to either the connected firms and/or their managers. An example is the contrast between Indonesia and the PRC. Managers of Indonesian firms are often the largest shareholders, where 84.6% of management is affiliated with the controlling owners (see Claessens, Djankov, and Lang 2000). The extant literature highlights evidence from Indonesia where investors view political connection to the country's president as valuable, accounting for one-fourth of a firm's value and adding 33% to firm value (Fisman 2001). Thus, because managers' stakes in the firms are large, a substantial share of rent extraction accrues to the firm. In the PRC, however, the average management ownership of Chinese firms at the time of IPO is a mere 0.298% (Li et al. 2007) and firms with political connection underperform their counterparts that have no political connections by 37% over a 3-year post-IPO period (Fan, Wong, and Zhang 2007). This finding is consistent with the view that managers with a low personal ownership in their firms mainly divert the rent extracted from political connection to themselves and the connected politicians.⁴

⁴Other forms of political connection related to value reduction include having lower quality political appointees as managers and running the business as a political bureaucracy. It is also possible that Chinese investors fail to understand that it takes ownership alignment for rent extracted from political connection to flow to the firm and not the managers.

The issue addressed in this article is whether political connection enhances firm valuation when political corruption is low. Underlying the hypothesis is the conjecture that significant rent extraction is made possible only under an environment of high political corruption. The alternative hypothesis is that political corruption may not be necessary for politically connected directors to help create value for their firms. For instance, politically connected directors who are not corrupt may be able to influence their firm's governance structure by aligning it with the government's policy initiatives, which may lead to higher investor confidence and resultant higher firm value in some cases.⁵

Singapore is in a unique situation being the only low corruption country in a region dominated by high corruption. In contrast, Denmark and New Zealand, which are jointly ranked with Singapore as the least corrupt, have neighboring countries that are also low on corruption. Denmark and New Zealand are less suitable for studying the issue raised here as their environment of political corruption, the willingness of politicians to abuse their powers, and the likelihood of firms or managers engaging in political rent extraction, may be related to an unspecified common factor—their shared social and/or cultural environment with neighboring countries. Thus, Singapore provides a more ideal natural experiment for our study.⁶

In this study, we define a company to be politically connected if at least one member on its board of directors is: (i) a former cabinet minister of the Singapore government, (ii) a serving or former Member of Parliament (MP), or (iii) a current or former senior civil servant of the Singapore government.⁷ We investigate the relation between political connection and firm valuation within the context of newly listed companies during 1998–2006. We employ Tobin's Q as a proxy for the value of newly listed firms in Singapore for each of the 3 years after their issuance and compare the differences in value between companies with and without political connection. We also explore the relationship between political connection, corporate governance, and firm value.

The results of this paper show that in a country such as Singapore, where political corruption is relatively low, political connection adds little to the value or performance of the company. However, upon further careful investigation, we find that in certain industries, political connection appears to be more important than in others. These are industries that tend to be subject to more stringent government regulation such as electrical and electronic equipment (SIC 36), holding and other investment offices (SIC 67), general building contractors (SIC 15), food and kindred

⁵An example is from Ferguson and Voth (2008), who report that firms politically linked to Hitler's Nazi Germany outperformed the market by 5%–10%. However, this should be properly viewed as a consequence of the skewed policy of fascism in favor of a few companies.

⁶The International Monetary Fund (IMF), in June 2004, indicated in its financial system stability assessment of Singapore that a competent judiciary is one of the cornerstones of Singapore's legal system, giving top marks for the reliability of the country's legal, supervisory, and institutional framework.

⁷Currently serving ministers of the government are not permitted to sit on corporate boards. However, no such restrictions are imposed on MPs and senior civil servants.

products (SIC 20), and rubber and miscellaneous plastics products (SIC 30). There is evidence that companies in such industries may find that having directors who are politically connected could have a positive and significant impact on their firm's value. We further examine the characteristics of these firms and find that, among these firms, those with a politically connected chairman/chief executive officer (CEO) or senior civil servant on their board benefit the most in terms of a positive effect on firm value.

The remainder of this paper is organized as follows. In Section II, we present a brief introduction of corporate governance in Singapore. Section III reviews the prior literature on political connection and develops the hypotheses. The sample data and research methodology are described in detail in Section IV. Research outcomes and results are documented in Section V. Section VI summarizes the study and provides some concluding remarks.

II. Background of Corporate Governance in Singapore

Following loosely the Anglo-American model, Singapore's corporate governance system revolves around capital market controls of managerial behavior (Prowse 1998). The capital market in Singapore is thin (less than 500 listed companies were on the Singapore Stock Exchange in 2002, growing to about 800 firms in 2008), and equity is firmly held among a small group of investors including the Government of Singapore, multinational and regional corporations, wealthy individuals, and entrepreneurial families. Government-linked corporations (GLCs) account for approximately 24% of the stock market's total capitalization of \$287 billion and control over a 10th of the country's economic output (Ang and Ding 2006). Therefore, any study of corporate governance in Singapore would not be complete without understanding the role and governance structure of Singapore's GLCs.

Typically, GLC boards are populated by senior civil servants and political appointees, making board appointments an oblique method for monitoring or controlling corporate activities and business practices by the government. The government-centered corporate governance system can be potentially effective if strong governance is regarded as keeping with effective industrial policy (Phan and Yoshikawa 2005). To buttress this view, Ang and Ding (2006) compare the financial and market performance of GLCs with non-GLCs, where each had a different governance structure, the key difference being government ownership. They show that Singaporean GLCs have higher valuations and better corporate governance than a control group of non-GLCs. Their results hold even after controlling for firm-specific characteristics such as profitability, leverage, firm size, and foreign ownership.

GLCs in Singapore are largely corporate investments by Temasek Holdings, a wholly owned government entity that prides itself for its ability to make investment decisions strictly on a commercial basis. Temasek's articulated policy with respect to GLCs is to play a key monitoring role in commercially viable and financially

independent companies. Due to Temasek's stake in GLCs, it is possible that some politicians are appointed on behalf of Temasek. It may then be argued that these appointees, in protecting the interests of Temasek, also maximize share value, as long as: (i) Temasek does not influence the government to show favoritism at the expense of competitors, and (ii) it is not possible for Temasek or its appointees to share in the private benefits of control.

There are a few anecdotes to reinforce the view that politically connected firms in Singapore do not enjoy favoritism from the government. For example, since April 2007, the postal sector has witnessed the entry of new players in both domestic and international mail services after a 15-year monopoly held by SingPost.⁸ Also, the corporate tax rate is applied uniformly across all businesses and industries with the expectation that no firm is specially protected by the government to reap economic benefits.

III. Literature Review and Hypotheses

Political connection, or the lack thereof, is a double-edged sword; it can either enhance or jeopardize a firm's value. In the PRC, Xu, Zhu, and Lin (2002) show that when political control is curtailed, firm performance improves. This happens when there is a resulting increase in a firm's flexibility in labor deployment and in the enforcement of more effective corporate governance mechanisms. It is recognized, however, that some political appointees have conflicting objectives, e.g., maximizing employment or minimizing social costs.

Likewise, politically connected CEOs, instead of being helpful to firm performance, may have a deleterious effect. Fan, Wong, and Zhang (2007) report that firms with politically connected CEOs underperform those without political connection by 37% when measured by their firms' 3-year post-IPO stock returns. In addition, performance measures such as market-to-book value and return on assets of state-controlled firms are found to be negatively related to the level of state ownership (Fan, Wong, and Zhang 2007). Similarly, evidence from 47 countries shows that politically connected firms underperform nonpolitically connected firms on an accounting basis, notwithstanding the fact that they are able to derive considerable benefits from their political connections (Faccio 2006).

One possible explanation for the underperformance of politically connected firms is that the channeling of resources by politicians toward favored firms can lead to a distortion of incentives, misallocation of investment, and increase in corrupt activities (Shleifer and Vishny 1994). On the other hand, with political connection, a firm may increase in value if it manages to extract unfair economic rents at the expense of competitors and consumers (e.g., Faccio 2006). However, when all or more of the increase in firm value is consumed by politicians and their connected

⁸Lee Hsien Yang, the brother of Prime Minister Lee Hsien Loong, serves as an independent director on SingPost's board.

managers, less of any remaining value would be available to shareholders. This is a form of agency problem that proper governance structures can help contain.

A subtle point to note is that good governance, which aims to increase share value, does not equate to good citizenship. It is perfectly consistent for good governance firms to take advantage of political connection to increase share value under corrupt regimes.

If political connection were used as a prime determinant of profitability, it would induce distorted investment decisions (Faccio 2006) and consequently lead to lower firm value. There is evidence in Indonesia of firms facing difficulties in building connections with a new government when their patron falls from power, causing those firms to underperform under the new regime and subsequently to turn to foreign financing (Leuz and Oberholzer-Gee 2006).

On the other hand, politically connected companies may benefit from easier access to debt financing, lower taxes, and stronger market power (Faccio 2006). For example, Friedman (1999) reports that bankers are often compelled to extend loans for projects undertaken by politically connected firms even when they are forecast to be unprofitable, thus extracting rents from the banks. Such evidence, together with others (e.g., Johnson et al. 2006, Khwaja and Mian 2004, Sapienza 2004) provide further support that the discrepancy in the lending behavior of state-owned banks is affected by the electoral results of the party affiliated with the bank. Such actions represent a wealth transfer from citizens or consumers to the firm, leading to an increase in firm value.

Besides easier access to credit, politically connected firms may enjoy other benefits. Some public officials and politicians may clandestinely sell underprovided goods and a spectrum of rent-generating advantages to individual firms, often allowing firms to shape the rules of the game to their advantage at considerable social cost (Hellman, Jones, and Kaufmann 2000). Alternatively, directors may be appointed for their knowledge, experience with government procedures, insights in government policy, and the ability to persuade the government in favor of the firm's interest or forestall governmental action pernicious to the firm (Agrawal and Knoeber 2001).

Imai (2006) shows that powerful business groups strive to directly hold influential public offices in order to change economic policies to their favor as companies with political connection are more likely to win a project tender because of the protection from corrupt politicians or bureaucrats. Thus, the award of government contracts to companies without basic qualifications, resources, and expertise is, not surprisingly, often linked to political parties (della Porta and Vannucci 1997).⁹

⁹It is noted that companies that form political connections with government officials in order to obtain perks or preferential treatment are characteristic not only of countries traditionally labeled as corrupt, but may also be found in countries known for their transparent systems. In the US, about half of those who leave government jobs, including some who have served in Congress, end up working as lobbyists, commanding a higher remuneration. Oftentimes, as in Japan, they end up working for corporations that try to influence the decisions of government agencies they had left. These examples demonstrate just how imperfectly political corruption is measured. Many countries that have no corruption by bureaucrats and policemen, etc., nevertheless have politicians influenced by money spent on lobbying and campaign contributions by interested groups and firms.

It is evident that politically connected directors have the power and ability to bring benefits to firms by influencing the laws under which their firms operate, as well as increasing the possibility of winning government contracts for their firms and, in the process, enhance firm value. Crudely put, politically connected board members can either influence the transfer of wealth from competitors or consumers to their firms (Faccio 2006) or corruptly extract economic rents from the firm for their personal gain. We test the following null hypothesis.

Hypothesis 1: In the absence of political corruption, political connections of firms have little or no effect on firm value.

The alternative to this hypothesis is that political connections of firms could lead to private gains to the firms' shareholders. In Singapore, offenses from and sanctions on corruption are set out in the Prevention of Corruption Act, which is vigilantly enforced. Punishment on corruption includes a fine of up to S\$100,000 or imprisonment for a term not exceeding 7 years or both, in addition to other potential related criminal charges. With such stringent regulations in place to uphold the integrity of the business environment, it is therefore relatively difficult for directors to corruptly exploit their connections to bring economic benefits to their firms or to abuse their position in the firm for their own personal economic, social, or political interests.

Thus, we hypothesize that firms are generally not expected to gain from their political connections. However, firms operating in a more highly regulated industry may deem it advantageous to appoint directors who are politically connected, but not corrupt, to their board.¹⁰ A low-corruption government has two means of limiting the value of political connections to firms. One, it is more likely to appoint, or allow to be appointed, officials who are not corrupt onto corporate boards. Two, it would set up mechanisms to identify and punish corrupt officials. The following hypothesis is tested.

Hypothesis 2: Politically connected directors in firms operating in a more highly regulated industry are associated with a higher firm value.

IV. Data and Methodology

A. Data and Sample Design

Underpricing during an IPO is a common phenomenon that is followed by abnormally low returns in the long run (see Ritter 1991). IPOs allow us to investigate

¹⁰Highly regulated industries include those with oversight by a government department that requires the company to make regular submissions on compliance issues, and have guidelines, standards, or legislation to meet. These companies are required to fulfill certain compliance and licensing requirements set by a government authority.

the wholesale introduction of all politically connected directors the first time the firms are introduced to the capital market. The design eliminates the need to adjust for the timing of an anticipation effect and the incremental value of a single appointee in later years. Thus, IPOs provide an *ex ante* expectation of the effect of political connection on firm value, while the value of political connections in seasoned firms is captured in *ex post* pricing.

The IPO data are obtained from the Securities Data Corporation (SDC) Global New Issue database and cover all IPOs during 1998–2006. We use the SDC database to obtain basic information on offer dates, offer prices, the number of shares issued, net proceeds, and the number of lead and co-lead managers. Prior to the IPO, we extract the latest financial information such as total assets, total liabilities, net income, and the debt-to-asset ratio from the individual firms' IPO prospectus. Post-IPO, financial data such as total assets, current assets, current liabilities, long-term debt, preferred stock, and market value of common equity are obtained from the Thomson One Banker database. From the IPO prospectus, we obtain the profile of each director. A total of 2,540 directors are covered in the sample of 387 listed companies. We manually identify directors that are politically connected according to the definition described in Section I.

Table 1 presents summary descriptive statistics of the entire sample of newly listed companies. Panels A, B, and C contain their offer, firm, and corporate governance characteristics, respectively. On average, the sample firms offer 74.18 million shares in their IPO, garnering net proceeds of \$21.06 million each. We note that firms with political connection (PC firms) on average issue 63.6 million shares which is less than those issued by non-PC firms. The median difference of these two numbers is statistically significant at the 10% level. The net proceeds raised by PC firms also tend to be lower than those of non-PC firms. The average offer price is \$0.47 with mean offer-to-close returns of 24%. On average, there are 1.33 underwriters per issue.

Firm characteristics are described in Panel B. We note that the market value of each firm's equity averages \$183.75 million with an average of 355.79 million shares outstanding. PC firms have average total assets valued at \$124.5 million whereas the corresponding figure for non-PC firms is higher at \$211.8 million. The market value of PC firms at the time of IPO is also lower than that of non-PC firms.

In Panel C, we report that the management of PC firms on average own 44.5% of their firms compared to 41% of non-PC firms. The average number of executive directors among PC firms is 2.78 compared to 2.90 for non-PC firms. PC firms report a significantly lower number of chairmen who also serve as CEOs than non-PC firms. The average age of the directors is 46.6 years with those of PC firms being slightly older. Overall, compared to non-PC firms, PC firms tend to be of a smaller size with a higher degree of management ownership and have older directors.

The evidence from Table 1 shows that PC firms have a higher (though not statistically significant) percentage of management ownership of the firm's equity

Table 1. Descriptive Statistics of Politically and Nonpolitically Connected Companies

	Total		Politically Connected		Nonpolitically Connected		Difference (Politically – Nonpolitically)	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Panel A: Offer Characteristics								
Shares offered (million)	74.175	44.400	63.618	39.100	77.706	46.013	-14.087	-6.913*
Net proceeds (US\$ million)	21.055	6.937	18.343	6.466	21.963	7.049	-3.620	-0.583
Offer price (S\$)	0.472	0.260	0.621	0.260	0.422	0.260	0.199	0.000
Offer-to-close return	0.238	0.114	0.229	0.068	0.241	0.116	-0.013	-0.048
Number of underwriters	1.331	1.000	1.330	1.000	1.331	1.000	-0.001	0.000
Panel B: Firm Characteristics								
Net sales (S\$ million)	84.804	37.620	80.490	40.825	107.456	38.675	-26.966	2.150
Total assets (S\$ million)	178.414	34.457	124.460	35.279	211.818	35.936	-87.358	-0.658
Total liabilities (S\$ million)	85.714	18.218	58.977	18.731	100.789	19.520	-41.812	-0.788
Debt-to-assets	0.282	0.236	0.244	0.225	0.300	0.254	-0.057**	-0.030
ROA	0.285	0.130	0.173	0.131	0.306	0.127	-0.133	0.005
EPS (S\$)	4.403	2.930	3.689	2.995	4.999	2.915	-1.311	0.080
Market value (S\$ million)	183.748	68.901	162.729	69.163	214.713	71.058	-51.984	-1.895
Shares outstanding (million)	355.785	202.948	283.573	206.975	399.145	219.853	-115.572	-12.878

Continued.

Table 1. *Continued.*

	Total		Politically Connected		Nonpolitically Connected		Difference (Politically – Nonpolitically)	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Panel C: Corporate Governance Characteristics								
Institutional ownership	0.486	0.536	0.475	0.510	0.496	0.550	-0.021	-0.040
Management ownership	0.426	0.4141	0.445	0.447	0.410	0.375	0.035	0.072
No. of board members	6.563	6.000	6.515	6.000	6.684	6.000	-0.169	0.000
No. of independent directors	2.416	2.000	2.417	2.000	2.472	2.000	-0.055	0.000
No. of officials with chairman-CEO functions (duality)	0.615	1.000	0.505	1.000	0.623	1.000	-0.118**	0.000**
No. of executive directors	2.920	3.000	2.777	3.000	2.896	3.000	-0.119	0.000
Age of directors	46.576	47.000	47.859	48.000	46.382	46.000	1.477***	2.000***
GLC	0.040	0.000	0.040	0.000	0.039	0.000	0.001	0.000

* = significance at the 10% level (two-tailed test), ** = significance at the 5% level (two-tailed test), *** = significance at the 1% level (two-tailed test), EPS = earnings per share, GLC = government-linked corporations (i.e., number of IPOs that have government ownership), ROA = return on assets.

Notes:

1. This table presents the mean and median values of the offer, firm, and corporate governance characteristics of the politically and nonpolitically connected companies in panel A, B, and C, respectively.
2. In panel A, we report the offer characteristics, i.e., shares offered, net proceeds, offer price, offer to close return, and number of underwriters.
3. In panel B, we report the firm characteristics, i.e., net sales, total assets, total liabilities, debt-to-assets, return on assets, earnings per share, market value, and shares outstanding.
4. In panel C, we report institutional ownership, management ownership, number of board members, number of independent directors, number of individuals with chairman-CEO functions (duality), number of executive directors, age of directors, and number of IPOs that have government ownership.
5. t-statistics and z-statistics based on Wilcoxon signed ranks test were used for the test of differences in the mean and median, respectively.

Source: Securities Data Corporation (SDC) Global New Issue database and IPO prospectus.

and are of a smaller size (again not statistically significant) in terms of IPO proceeds, asset size, and market value at the time of IPO. Firms with such characteristics may typically be expected to have a lower valuation compared to larger firms and those that have a lower percentage of management ownership. However, the presence of PC directors appears to have somewhat neutralized such effects with their association with better corporate governance practices such as nonduality in chairman and CEO positions and fewer executive directors.

The sample consists of 97 politically connected companies and 290 nonpolitically connected companies that are newly listed over a 9-year period from 1998 to 2006. This translates to 33.45% of the sample IPO companies that are deemed to have political connection. In addition, from the profile of the 106 politically connected directors identified in this study, we document in Table 2 that 89% of these act as independent directors on the board. Moreover, 36% are current political appointees, 91% are former political appointees, 13% are politically connected chairmen, 22% are former cabinet ministers in the Singapore government, and 16% are senior civil servants of Singapore. Members of the Parliament account for 89% of politically connected directors. It is noted that current serving ministers are not permitted to sit on corporate boards.

Table 3 presents the background of the politically connected directors, including their age, business-related education, work experience, and the number of outside directorships that they hold at and before the time of IPO. We note that current (former) political appointees on corporate boards have worked a median total of 24 (27) years, 11 (16) of which were spent in government or in the senior civil service. This implies that politically connected directors have had a total of 11–13 years of business and professional experience which is not insignificant.¹¹ Such experience may be attractive to firms operating in certain highly regulated industries. In Table 3, we find that politically connected directors generally hold multiple outside directorships indicating that they are busy board members.

B. Firm Valuation Using Tobin's Q

Tobin's Q, the ratio of the market value of a company's assets (measured by the market value of outstanding stock and debt) to the replacement costs of the company's assets, is an important and widely accepted measure of corporate performance. As such, we make use of it as a proxy for firm value. It can be approximated by:

$$Q = \frac{MV(CS) + BV(PS) + BV(CL) + BV(LTD) - BV(CA)}{BV(TA)} \quad (1)$$

¹¹The corresponding background experience of directors of nonpolitically connected firms is not complete nor consistently available. Thus, comparisons between the two types of firms cannot be properly made,

Table 2. **Types of Politically Connected Directors**

Types of Political Connection	No. of Directors (%)	No. of Firms (%)
Current political appointees	38 (36%)	35 (36%)
Former political appointees	96 (91%)	67 (69%)
Politically connected chairmen	14 (13%)	14 (14%)
Politically connected independent directors	94 (89%)	80 (82%)
Members of Parliament	94 (89%)	81 (84%)
Current	37 (35%)	31 (32%)
Former	34 (32%)	30 (31%)
Former ministers	23 (22%)	23 (24%)
Senior civil servants	17 (16%)	17 (17%)
Current	1 (1%)	1 (1%)
Former	16 (15%)	16 (16%)
N	106 (100%)	97 (100%)

Notes:

1. This table reports the number of directors and number of firms for different types of politically connected directors based on 387 IPO firms from 1998 to 2006.
2. Current political appointees are those currently serving in government. Former political appointees are those who previously served in government.
3. Politically connected chairmen and independent directors are those who are related to the government.
4. Members of Parliament (MPs) include directors who are current or former MPs elected as the peoples' representative in the parliament.
5. Former ministers are directors who previously served in a cabinet position.
6. Senior civil servants include senior military personnel, permanent secretaries, and parliament secretaries working in their respective ministries.
7. The percentage values in parentheses measure the ratios of each type of director to the total number of politically connected directors or the ratios of each type of firm to the total number of politically connected firms.

Source: Securities Data Corporation (SDC) Global New Issue database and IPO prospectus.

where $MV(CS)$ is the market value of common shares, $BV(PS)$ the book value of preferred shares, $BV(CL)$ the book value of current liabilities, $BV(LTD)$ the book value of long term debt, $BV(CA)$ the book value of current assets, and $BV(TA)$ the book value of total assets. This simplified Q measure has been shown to account for at least 96.6% of the variability of Tobin's Q (Chung and Pruitt 1994). A Tobin's Q that is greater than one indicates that the company has a market value greater than its recorded assets, which can be attributed to intellectual capital or positive

Table 3. Background of Politically Connected Directors

	Current Appointees		Former Appointees		Current & Former MPs		Former Minister		Senior Civil Servants	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Years served in politics	10.97	11.00	16.79	16.00	14.79	16.00	20.11	21.00	21.06	28.00
Years of work experience	23.45	23.50	24.88	26.50	23.48	23.00	27.73	30.00	30.65	30.00
No. of present outside directorships (at IPO)	12.40	11.00	15.72	12.00	15.24	12.00	17.99	14.00	9.76	8.00
No. of past outside directorships (prior to IPO)	9.28	7.00	13.05	6.00	11.60	6.00	16.34	9.00	10.18	6.00
Age of director	46.76	47.00	57.39	58.75	53.03	53.00	60.09	61.00	62.41	64.00
	No. of Firms		No. of Firms		No. of Firms		No. of Firms		No. of Firms	
Business-related education	14		45		50		19		13	
Business-related industry experience	21		38		50		15		12	

IPO = initial public offering, MP = member of parliament.

Note: This table reports the backgrounds of the different types of politically connected directors, with background information collected from the IPO prospectus of firms. Source: Securities Data Corporation (SDC) Global New Issue database and IPO prospectus.

market sentiment of the company. As such, a higher Tobin's Q value is associated with superior firm value.

We compute the industry-adjusted Tobin's Q. Specifically, we subtract the industry median Tobin's Q based on the two-digit SIC code from the sample firm's Tobin's Q. By doing this, we are able to detect whether the sample firm outperforms the industry and, at the same time, control for any industry-related biases.

C. Methodology

We employ both univariate and multivariate analyses to test our hypotheses. We examine the association between firm value and political connection by performing linear regressions of Tobin's Q for each of the 3 years after an IPO and for the median of the 3 post-IPO years against alternative political connection definitions. We run the following main regression:

$$\begin{aligned} \text{Value} = & \beta_0 + \beta_1 \text{Polconnect} + \beta_2 \text{Duality} + \beta_3 \text{Independent} + \beta_4 \text{Dirage} \\ & + \beta_5 \text{Underpricing} + \beta_6 \text{Leverage} + \beta_7 \text{ROA} + \beta_8 \text{Exchange} \\ & + \beta_9 \text{GLC} + \beta_{10} \text{Mktval} + \varepsilon \end{aligned} \quad (2)$$

where the dependent variable, *Value*, refers to the industry-adjusted Tobin's Q of the firm 1, 2, and 3 years after IPO listing and the median industry-adjusted Tobin's Q over the 3 years. *Polconnect* refers to political connection measured by the ratio of the number of politically connected directors to the total number of board members.

Control variables used in the regression models are as follows. *Duality* refers to the presence of a CEO who is also the chairman. *Independent* refers to the percentage of directors on the board who are outside directors. *Dirage* is the average age of directors. *Underpricing* is the offer-to-close return computed as the difference between the first trading day's closing and offer price as a percentage of the offer price. *Leverage* is measured by the debt-to-asset ratio. *ROA* is the return on assets computed as net income divided by total assets. *Exchange* is a dummy variable that takes on the value of one if a firm is listed on the main board of the Singapore Exchange (SGX) and zero otherwise. *GLC* is a dummy variable with a value of one if it is a subsidiary of Temasek and zero otherwise.¹² *Mktval* refers to the natural logarithm of market value defined as the first day's closing price multiplied by the number of shares outstanding after the IPO.

¹²These are government-linked companies (GLC) in which Temasek Holdings, the investment holding arm of the Singapore government, has at least a 20% stake. Examples of GLCs include some of the largest companies in Singapore such as Singtel, DBS Bank, Singapore Airlines, PSA International, SMRT Corporation, Singapore Power, and Neptune Oriental Lines. In our IPO sample, the GLC firms include Chartered Semiconductor Manufacturing, Singapore Airport Terminal Services, Singapore Post Ltd., Olam International Ltd., etc.

In addition to the inclusion of several control variables, robustness checks are performed using a number of alternative definitions of political connection. These include using political connection as a dummy variable, which takes on the value of one when at least one director is politically connected, and taking the natural logarithm of the number of politically connected directors. Additionally, in place of these variables, we employ dummy variables to reflect the status of directors as current or former political appointees.

The control variables included in this study are supported by previous research (e.g., Ang and Ding 2006, Chong and Lopez-de-Silanes 2006, Leuz and Oberholzer-Gee 2006), and can be grouped into two categories. In the first category are firm-specific control variables such as firm size, leverage, and profitability.¹³ These include *Mktval*, which is the natural logarithm of a firm's first day post-IPO market value, used as a measure of firm size. *Leverage* is used as a proxy for mapping the risk profile of a company. *ROA* is used to control for a firm's profitability. The second category includes control variables that capture differences in corporate governance among the firms. A GLC dummy takes on a value of one when a company is government-linked, and zero if otherwise. It is noted that GLCs have been shown to provide superior returns (on both assets and equity) and are valued more highly because of better management of expenses than non-GLCs (Ang and Ding 2006).¹⁴

In order to examine the effect of corporate governance on firm value while considering a firm's level of political connection, two variables are used as governance proxies: the percentage of independent directors and duality. Director independence is an indicator of the presence of a strong and independent board, whereas duality illustrates an appropriate balance of power, increased accountability, and greater capacity of the board for independent decision making if the chairman and CEO positions are held by separate persons. With an effective board, the opportunities for controlling shareholders and management to expropriate funds will, hopefully, be reduced.

V. Results and Analysis

A. Univariate Analysis

Using independent t-tests and Wilcoxon signed ranks tests, we examine the differences in means and medians, respectively, of the industry-adjusted Tobin's Q valuation for 1, 2, and 3 years after an IPO and the median industry-adjusted Tobin's Q over all 3 years after an IPO listing between politically connected firms

¹³We thank an anonymous referee for suggesting that profitability be controlled for directly.

¹⁴Investors in the Singaporean market appear to value the higher standards of corporate governance found in GLCs.

Table 4. Firm Value in Post-IPO Years

		Politically Connected	Nonpolitically Connected	Difference
1-year	Mean	0.30	0.17	0.13 (0.75)
	Median	0.10	0.09	0.01 (0.35)
	N	61	199	
2-year	Mean	0.27	0.07	0.20 (0.77)
	Median	0.03	0.01	0.02 (0.43)
	N	63	193	
3-year	Mean	0.46	0.21	0.25 (0.72)
	Median	0.10	0.08	0.02 (0.53)
	N	58	170	
Post median	Mean	0.23	0.08	0.15 (0.23)
	Median	-0.04	-0.002	-0.038 (-0.15)
	N	48	154	

*= significance at the 10% level (two-tailed test), **= significance at the 5% level (two-tailed test), ***= significance at the 1% level (two-tailed test), IPO = initial public offering.

Notes:

1. This table reports the mean and median of the industry-adjusted Tobin's Q for politically and non-politically connected firms in the post-IPO years, specifically, 1, 2, and 3 years after an IPO. Post median refers to the median industry-adjusted Tobin's Q for all three post-IPO periods.
2. Tobin's Q is computed based on the Chung and Pruitt (1994) method as follows

$$Q = \frac{MV(CS) + BV(PS) + BV(CL) + BV(LTD) - BV(CA)}{BV(TA)}$$

where $MV(CS)$ is the market value of common shares, $BV(PS)$ the book value of preferred shares, $BV(CL)$ the book value of current liabilities, $BV(LTD)$ the book value of long term debt, $BV(CA)$ the book value of current assets, and $BV(TA)$ the book value of total assets.

3. We compute the industry-adjusted Tobin's Q by subtracting the industry median from the sample firm's industry-adjusted Tobin's Q.
4. t-statistics and z-statistics based on Wilcoxon signed ranks test (the figures in parentheses) were used for the test of differences in the mean and median, respectively.

Source: Securities Data Corporation (SDC) Global New Issue and Thomson One Banker databases.

and those that are not politically connected. The findings for industry-adjusted Tobin's Q valuation are presented in Table 4, which shows that the industry-adjusted Tobin's Q is not statistically significant between the two groups. This suggests that there is insufficient evidence to show that political connection adds to firm value in Singapore and that any benefits that such connections might bring appear to be limited, supporting Hypothesis 1 above.

In place of Tobin's Q, the results for cumulative abnormal stock returns (the difference between daily returns and market returns) of politically and nonpolitically

Table 5. Cumulative Abnormal Returns in Post-IPO Years

		Politically Connected	Nonpolitically Connected	Difference
1-year	Mean	-0.17	-0.20	0.03 (0.55)
	Median	-0.24	-0.20	-0.04 (-0.49)
	N	75	234	
2-year	Mean	-0.35	-0.33	-0.02 (-0.16)
	Median	-0.52	-0.48	-0.04 (-0.20)
	N	54	195	
3-year	Mean	-0.51	-0.44	-0.07 (-0.67)
	Median	-0.65	-0.72	0.07 (0.91)
	N	34	129	

*= significance at the 10% level (two-tailed test), **= significance at the 5% level (two-tailed test), ***= significance at the 1% level (two-tailed test), IPO = initial public offering.

Notes:

1. This table reports the mean and median of the cumulative abnormal returns for politically and nonpolitically connected firms in the post-IPO years. Specifically, we compute the buy-and-hold abnormal returns for 1, 2, and 3 years after an IPO.
2. The abnormal return is the difference between the daily returns and the market returns. The market return is computed based on the Singapore Straits Times Index (STI).
3. t-statistics and z-statistics based on Wilcoxon signed ranks test (the figures in parentheses) were used for the test of differences in the mean and median, respectively.

Source: Securities Data Corporation (SDC) Global New Issue database and Datastream.

connected firms for 1, 2, and 3 years after an IPO are shown in Table 5. The mean and median values show that abnormal stock returns of politically connected firms do not outperform those of nonpolitically connected firms up to 3 years after an IPO as both the results of the t-test and Wilcoxon signed ranks test are not statistically significant. Again, our evidence does not support shareholders having benefitted from the appointment of politically connected directors.

We examine the differences in accounting performance of the politically connected and unconnected firms and report the median values of the profit margin, cash flows from operations, return on assets (ROA), return on equity (ROE), and return on invested capital (ROIC) for 1, 2, and 3 years after the IPO and for median for the 3 years in Table 6. In general, from the results in Panel A, we do not find any significant differences in the accounting performance between the two types of firms. However, if we limit the sample to the more regulated industries, the results in Panel B show that the profit margin and cash flow from operations in the 1-year post-IPO period is significantly higher among PC firms than non-PC firms. These findings indicate that politically connected directors are associated with indicators of profitability and firm value within the first year of an IPO among firms that are more highly regulated.

Table 6. Accounting Performance of Politically and Nonpolitically Connected IPOs

		Politically Connected	Nonpolitically Connected	Wilcoxon Signed Ranks Test
Panel A: Full Sample				
Profit margin	1-year	7.395	7.930	0.783
	2-year	5.695	4.935	0.826
	3-year	4.645	3.960	0.633
	Post median	5.970	5.480	0.661
Cash flow from operations	1-year	1.905	1.930	0.468
	2-year	2.560	2.235	1.411
	3-year	2.440	2.130	0.430
	Post median	1.780	1.665	0.041
ROA	1-year	8.760	7.850	0.430
	2-year	5.730	6.390	-0.495
	3-year	4.745	5.080	-0.287
	Post median	4.940	5.525	-0.537
ROE	1-year	14.600	13.030	0.577
	2-year	9.640	10.555	0.181
	3-year	7.675	7.930	0.076
	Post median	7.940	8.480	0.046
ROIC	1-year	11.720	10.365	0.190
	2-year	7.920	8.010	-0.502
	3-year	5.950	7.480	-0.554
	Post median	6.920	7.675	-0.692
Panel B: Regulated Industries				
Profit margin	1-year	4.700	2.970	1.603*
	2-year	1.688	-0.198	0.908
	3-year	-0.063	0.135	0.131
	Post median	0.766	0.290	0.597
Cash flows from operations	1-year	4.950	-1.965	2.013**
	2-year	0.298	-1.668	0.908
	3-year	-1.450	-1.743	0.090
	Post median	-1.160	-1.620	0.682
ROA	1-year	4.663	2.730	0.686
	2-year	1.680	-0.090	0.528
	3-year	-0.230	-0.850	0.475
	Post median	0.694	-0.188	0.203
ROE	1-year	3.265	0.588	0.881
	2-year	3.420	-1.545	0.979
	3-year	1.145	-4.890	1.247
	Post median	2.585	-2.085	1.116

Continued.

B. Multivariate Analysis

The initial results (not reported) of ordinary least squares (OLS) regressions using industry-adjusted Tobin's Q (a proxy for firm value for each of the 3 years and

Table 6. *Continued.*

		Politically Connected	Nonpolitically Connected	Wilcoxon Signed Ranks Test
ROIC	1-year	3.495	2.960	0.227
	2-year	1.290	-1.380	0.825
	3-year	-0.108	-2.843	1.030
	Post median	0.410	-0.734	0.475

* = significance at the 10% level (two-tailed test), ** = significance at the 5% level (two-tailed test), *** = significance at the 1% level (two-tailed test), IPO = initial public offering, ROA = return on assets, ROE = return on equity, ROIC = return on invested capital.

Notes:

1. This table reports the median values of the accounting variables for politically and nonpolitically connected firms in the post-IPO years, specifically, 1, 2, and 3 years after an IPO.
2. Post median refers to the median for all three post-IPO periods.
3. z-statistics based on Wilcoxon signed ranks test were used for the median test between politically and nonpolitically connected firms.

Source: Securities Data Corporation (SDC) Global New Issue and Thomson One Banker databases.

the median of the 3 years after an IPO listing) as the key dependent variable show that political connection, which is expressed as a percentage of politically connected directors on the board, does not have a strong predictive power in explaining firm value. Political connection is found to be not statistically significant in explaining industry-adjusted Tobin's Q over various years. We therefore cannot reject Hypothesis 1 that political connection is not associated with firm value. Similar results (not reported) are obtained when the political connection percentage variable is replaced by a political connection dummy variable and the natural logarithm of the number of politically connected directors.

However, upon further investigation, when we break down the sample according to the two-digit SIC, we find that, in certain industries, political connection appears to be more important than in others. These are the industries that tend to be subject to more stringent government regulation such as electrical and electronic equipment (SIC 36), holding and other investment offices (SIC 67), general building contractors (SIC 15), food and kindred products (SIC 20), and rubber and miscellaneous plastics products (SIC 30).¹⁵

The findings for these industries show that the interaction between political connection and a particular regulated industry are mostly positively significant at the 10% level (see Model 2 of AQ_post2yr and AQ_median in Table 7). As these industries carry higher regulatory risks—e.g., not knowing the appropriate regulations, their interpretation, and/or procedures to observe them—PC directors may help firms alleviate/mitigate these risks by providing the appropriate advice

¹⁵Industries that are subject to a more stringent regulatory environment include: electronic and electronic equipment (SIC 36), which is governed by the Infocomm Authority of Singapore's Electronic Transactions Act; holding and other investment offices (SIC 67), which is regulated by the various securities and financial acts of the Monetary Authority of Singapore; general building contractors (SIC 15), regulated by the Building and Construction Authority; food and kindred products (SIC 20), by the Agri-Food and Veterinary Authority; and rubber and miscellaneous plastics products (SIC 30), by the Rubber Association of Singapore.

Table 7. Regression Results of Industry-adjusted Tobin's Q

	AQ_post1yr		AQ_post2yr		AQ_post3yr		AQ_median	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Intercept	4.030*	4.357*	1.155	2.383	0.691	0.761	1.928	2.814
Polconnect	0.155	0.061	-0.119	-0.084	0.181	-0.160	0.156	-0.454
Duality	-0.145	-0.003	-0.241*	-0.197	-0.135	-0.107	-0.250	-0.220
Independent	0.137	0.041	0.820	0.617	1.945*	1.585*	2.390**	1.948**
Dirage	-1.189**	-1.108**	-0.484	-0.637	-0.277	-0.061	-0.314	-0.168
Underpricing	0.095	0.118	-0.278	-0.275	-0.171	-0.107	-0.199	-0.036
Leverage	0.002***	0.001***	0.199	0.101	0.122	0.0002	0.070	-0.041
ROA	-0.070	-0.116**	-0.057	-0.073	-0.167*	-0.205*	-0.225**	-0.271**
Exchange	0.029	-0.026	-0.226	-0.215	0.041	0.042	-0.080	-0.102
GLC	0.203	-0.272	0.172	0.160	0.334	0.236	0.043	0.291
Market Value	0.124**	0.112*	0.126**	0.097	0.156*	0.134	0.109	0.052
Industry1	-0.012	-0.016	0.063	-0.031	-0.159	-0.341*	-0.261	-0.593**
Industry2	0.056	-0.115	-0.033	-0.144	-0.239	-0.346	-0.156	-0.399
Industry3	-0.226	-0.755***	-0.524**	-0.760***	0.266	-0.195	-0.098	-0.625
Industry4	0.276	-0.231*	-0.482	-0.617	-0.805**	-0.901**	-0.688*	-0.527
Industry5	0.387	0.503*	0.214	0.348	0.171	0.327	0.199	0.344
Industry6	-0.080	-0.162	-0.059	0.070	0.150	0.235	0.175	-0.3003
Industry7	0.096	0.197	0.132	-0.070	-0.019	-0.063	0.042	-0.064
Industry8	0.474	0.556	-0.130	-0.335	-0.422**	-0.526**	-0.521***	-0.494**
Industry9	-0.106	-0.162	-0.192	-0.253*	-0.349*	-0.360*	-0.550***	-0.684***
Industry10	0.390*	0.421	0.191	0.135	-0.116	-0.196	0.051	-0.108
Polconnect×Industry1		-0.927		2.098		3.183		6.703*
Polconnect×Industry2		0.022		3.277		3.284		3.920
Polconnect×Industry3		11.594*		5.115		16.195		18.557
Polconnect×Industry4		1.951**		1.812		1.641		1.219
Polconnect×Industry5		-1.710		-1.440		-1.522		-0.990
Polconnect×Industry6		0.445		-0.998		1.606		7.648*
Polconnect×Industry7		-1.618		1.436		1.176		2.334*
Polconnect×Industry8		1.080		4.125*		2.533		2.977

Continued.

Table 7. Continued.

	AQ_post1yr		AQ_post2yr		AQ_post3yr		AQ_median	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Polconnect × Industry9		-0.643		0.028		-1.143		1.088
Polconnect × Industry10		-2.089		0.958		1.949		3.251
Adj. R ²	0.026	0.066	0.026	-0.009	0.093	0.001	-0.008	0.008
F-Statistic	1.33	1.57**	1.34	0.93	1.05	1.01	0.92	1.05
N	252	252	246	246	219	219	195	195

* = significance at the 10% level (two-tailed test), ** = significance at the 5% level (two-tailed test), *** = significance at the 1% level (two-tailed test) using White heteroskedasticity-consistent t-statistics.

Notes:

- This table presents the regression results for the abnormal firm value. Industry-adjusted Tobin's Q is measured by the sample firm's Tobin's Q minus the industry median Tobin's Q. Industry classification is based on the 2-digit SIC code.
- Dependent variables *AQ_post1yr*, *AQ_post2yr*, and *AQ_post3yr* are the industry-adjusted Tobin's Q estimates 1, 2, and 3 years after an IPO. "AQ_median" is the median industry-adjusted Tobin's Q estimate over the 3 years.
- The independent variables were defined as follows.
 - Polconnect* is a dummy variable that takes the value of 1 if the director is politically connected, 0 otherwise.
 - Duality* occurs when the chairman is also the CEO.
 - Independent* refers to the percentage of independent directors on the board.
 - Dirage* is the average age of the firm's directors.
 - Underpricing* is computed as the difference between the first day's closing price and offer price, computed as a percentage of the offer price.
 - Leverage* is total debt divided by total assets.
 - ROA* is the return on assets prior to the IPO.
 - Exchange* is a dummy variable taking the value of 1 if the firm is listed on the main board of the SGX, 0 otherwise.
 - GLC* is a dummy variable taking the value of 1 if the firm is a government-linked corporation, 0 otherwise.
 - Market Value* is the first day's closing price multiplied by the number of shares outstanding after the IPO.
 - Industry 1, 2, 3, 4, 5, 6, 7, 8, 9, and 10* are dummy variables taking the value of 1 if the 2-digit SIC codes are 36, 67, 73, 87, 28, 15, 20, 30, 50, and 35, respectively; 0 otherwise.

Source: Securities Data Corporation (SDC) Global New Issue database, IPO prospectus, and Thomson One Banker database.

while being mindful of any potential conflicts of interests. Our results reveal that companies operating in these industries have a positive and significant addition to their firm value due to their political connection based on the 3-year median post-IPO industry-adjusted Tobin's Q. The results using abnormal stock returns (Table 8) largely corroborate those of the industry-adjusted Tobin's Q.

Given the existence of stringent laws (namely the Prevention of Corruption Act) that are strictly enforced with its attendant criminal and civil penalties against corruption in Singapore, together with the country's high ranking in Transparency International's Corruption Perceptions Index, it is highly probable that any corrupt official will be very quickly brought to task. As documented earlier, since PC directors are associated with better governance practices, their presence on corporate boards may compel firms to better adhere to the appropriate regulations. We are not claiming that PC firms do not receive government contracts or any preferential treatment. Rather, by virtue of their being perceived as having good governance under a low corruption environment where government regulations are observed, such companies are likely to be attractive to both private businesses and governments for suitable business alliances. Our findings provide evidence that it is possible for political connection to be independent of corruption.

The results for governance show that *Duality* is negatively and significantly related to industry-adjusted Tobin's Q in the second year post-IPO, whereas *Independent* is positive and significant for the median industry-adjusted Tobin's Q in the 3 years after an IPO. *Dirage* is negative and significant for the 1-year industry-adjusted Tobin's Q post IPO. We also investigate the interaction effect between political connection and two governance variables (duality and board independence) and find insignificant results (not reported). This implies that there is insufficient evidence to show that politically connected firms in a low corruption environment, regardless of their corporate governance, reduce firm values. To lend further support to our findings, we include an additional interactive term between political connection and GLC (to reflect the presence of government ownership in a firm) into our multivariate regression. The results from this interactive term are found to be not statistically significant.

For greater robustness of our results, we have allowed for finer classifications of political connection (see Table 2). That is, we further divide these PC directors into the following: politically connected chairmen/CEOs, current political appointees, former political appointees, MPs, former ministers, and senior civil servants. The regression results (Tables 9 and 10) for each type of political connection show that such connections add little to firm value.

In Tables 9 and 10, besides investigating the value effects of different political connection classifications, we include a dummy variable (*Reg Ind*) that represents the five regulated industries identified in Table 7 to have a significant contribution to the value of firms with PC directors.

Table 8. Regression Results of Abnormal Stock Returns

	XRET1			XRET2			XRET3		
	Model 1	Model 2	Model 1	Model 1	Model 2	Model 1	Model 1	Model 2	
Intercept	0.787	-0.961	-2.791*	-2.759*	-2.414	-2.047	-2.047	-2.047	
Polconnect	0.249	-0.162	-0.273	-1.444**	-0.738	-1.592*	-0.738	-1.592*	
Duality	0.096**	0.107***	0.008	0.051	-0.173	-0.138	-0.173	-0.138	
Independent	0.152	0.101	-0.542	-0.603*	-0.250	-0.222	-0.250	-0.222	
Dirage	-0.260	-0.173	0.171	0.218	0.140	0.125	0.140	0.125	
Underpricing	-0.146***	-0.130***	-0.216**	-0.170*	-0.257*	-0.234*	-0.257*	-0.234*	
Leverage	-0.0004***	-0.0003***	-0.001**	-0.001**	-0.016	-0.027	-0.016	-0.027	
Exchange	0.069	0.057	-0.016	-0.004	-0.248*	-0.243**	-0.248*	-0.243**	
GLC	-0.098	-0.074	-0.211	-0.203	-0.703**	-0.658**	-0.703**	-0.658**	
Market Value	0.132***	0.121***	0.200***	0.184**	0.185***	0.158***	0.185***	0.158***	
Industry1	-0.023	-0.014	-0.236*	-0.279*	-0.372**	-0.396*	-0.372**	-0.396*	
Industry2	-0.078	-0.149**	-0.293**	-0.401***	-0.390**	-0.418***	-0.390**	-0.418***	
Industry3	-0.096	-0.088	-0.353***	-0.504***	-0.307**	-0.459***	-0.307**	-0.459***	
Industry4	-0.044	-0.160	-0.131	-0.270*	0.493	0.453	0.493	0.453	
Industry5	-0.137	-0.093	-0.204	-0.259	-0.201	-0.281*	-0.201	-0.281*	
Industry6	0.198	0.232	-0.194	-0.254	-0.499***	0.143	-0.499***	0.143	
Industry7	-0.047	-0.213**	-0.060	-0.307	-0.280*	-0.453***	-0.280*	-0.453***	
Industry8	-0.028	-0.099	-0.238*	-0.269	-0.170	-0.151	-0.170	-0.151	
Industry9	-0.081	-0.114*	-0.307***	-0.382***	-0.176	-0.284**	-0.176	-0.284**	
Industry10	-0.160**	-0.183**	-0.230	-0.329	-0.238	-0.253	-0.238	-0.253	
Polconnect × Industry1		-0.513		0.377	-0.050		-0.050		
Polconnect × Industry2		1.984***		3.446**	0.391		0.391		
Polconnect × Industry3		-0.498		4.345**	2.969**		2.969**		
Polconnect × Industry4		1.623*		2.625**	1.162		1.162		
Polconnect × Industry5		-0.415		1.008	1.284		1.284		
Polconnect × Industry6		-0.115		1.371	-1.243		-1.243		
Polconnect × Industry7		4.975*		5.908**	6.255***		6.255***		
Polconnect × Industry8		1.235*		0.752	0.082		0.082		
Polconnect × Industry9		0.420		1.220**	2.216**		2.216**		
Polconnect × Industry10		0.171		2.179	-0.584		-0.584		

Continued.

Table 8. Continued.

	XRET1		XRET2		XRET3	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Adj. R ²	0.182	0.227	0.097	0.103	0.059	0.024
F-Statistic	4.45***	3.98***	2.35***	1.95***	1.51*	1.14
N	296	296	241	241	154	154

* = significance at the 10% level (two-tailed test), ** = significance at the 5% level (two-tailed test), *** = significance at the 1% level (two-tailed test) using White heteroskedasticity-consistent t-statistics.

Notes:

- This table presents the regression results for the buy and hold abnormal stock returns. Abnormal return is measured by the sample firm's stock return minus the market return proxied by the Straits Times Index (STI) in Singapore.
- The dependent variables *XRET1*, *XRET2*, *XRET3* are the buy and hold abnormal stock returns compounding for 1, 2, and 3 years, respectively, post IPO.
- The independent variables were defined as follows.
 - Polconnect* is a dummy variable that takes the value of 1 if the director is politically connected, 0 otherwise. It is proxied by politically connected chairmen/CEOs, current political appointees, former political appointees, members of Parliament, former ministers, and senior civil servants in models 1 to 6.
 - Duality* occurs when the chairman is also the CEO.
 - Independent* is the percentage of independent directors on the board.
 - Dirage* is the average age of the firm's directors.
 - Underpricing* is computed as the difference between the first day's closing price and offer price, computed as a percentage of the offer price.
 - Leverage* is total debt divided by total assets.
 - Exchange* is a dummy variable taking on the value of 1 if the firm is listed on the main board of the SGX, 0 otherwise.
 - GLC* is a dummy variable taking on the value of 1 if the firm is a government-linked corporation, 0 otherwise.
 - Market Value* is the first day's closing price multiplied by the number of shares outstanding after the IPO.
 - Industry 1, 2, 3, 4, 5, 6, 7, 8, 9, and 10* are dummy variables taking the value of 1 if the 2-digit SIC codes are 36, 67, 73, 87, 28, 15, 20, 30, 50, and 35, respectively; 0 otherwise.

Source: Securities Data Corporation (SDC) Global New Issue database, IPO prospectus, and Datastream.

Table 9. Regression Results of Industry-adjusted Tobin's Q

	Model 1: Politically Connected Chairman or CEO				Model 2: Current Political Appointees			
	AQ_post1yr	AQ_post2yr	AQ_post3yr	AQ_median	AQ_post1yr	AQ_post2yr	AQ_post3yr	AQ_median
Intercept	3.154	0.747	-0.045	1.238	3.228	1.042	0.082	1.446
Polconnect	-0.318	-0.353	-0.431	-0.274	0.031	-0.030	0.168	0.168
Duality	-0.191	-0.256**	-0.191	-0.295	-0.161	-0.229*	-0.132	-0.255
Independent	0.217	0.755	1.684	2.175**	0.256	0.784	1.709	2.215**
Dirage	-0.950*	-0.417	-0.188	-0.286	-0.970*	-0.492	-0.220	-0.335
Underpricing	0.160	-0.237	-0.181	-0.144	0.150	-0.250	-0.220	-0.165
Leverage	0.002***	0.185	0.026	0.069	0.002***	0.180	0.014	0.055
ROA	-0.063	-0.043	-0.133	-0.182	-0.068	-0.048	-0.148	-0.188*
Exchange	0.020	-0.207	0.049	-0.078	0.024	-0.202	0.035	-0.085
GLC	0.196	0.188	0.172	-0.053	0.211	0.230	0.087	-0.094
Market Value	0.120*	0.123*	0.177*	0.124	0.120*	0.123*	0.182*	0.122
Reg Ind	0.040	0.029	-0.216	-0.179	0.068	0.053	-0.134	-0.136
Polconnect×Reg Ind	0.008	0.335	0.417*	0.487*	-0.044	0.307	0.279	0.393
Adj. R ²	0.023	0.022	0.014	0.009	0.018	0.015	0.019	0.010
F-Statistic	1.49	1.46	1.26	1.15	1.39	1.32	1.35	1.17
N	267	262	234	208	267	262	234	208

	Model 3: Former Political Appointees				Model 4: Members of Parliament			
	AQ_post1yr	AQ_post2yr	AQ_post3yr	AQ_median	AQ_post1yr	AQ_post2yr	AQ_post3yr	AQ_median
Intercept	3.403	1.047	0.004	1.534	3.418	1.030	0.277	1.525
Polconnect	0.107	0.018	-0.083	-0.010	0.172	-0.0004	0.045	-0.020
Duality	-0.148	-0.224*	-0.170	-0.277	-0.131	-0.227*	-0.147	-0.280
Independent	0.295	0.789	1.707	2.239**	0.257	0.783	1.723	2.244**
Dirage	-1.034*	-0.498	-0.183	-0.353	-1.039*	-0.491	-0.262	-0.349
Underpricing	0.157	-0.251	-0.216	-0.158	0.151	-0.252	-0.210	-0.157
Leverage	0.002***	0.182	0.015	0.063	0.002***	0.182	0.009	0.064
ROA	-0.068	-0.049	-0.143	-0.186*	-0.069	-0.049	-0.144	-0.186*
Exchange	0.025	-0.204	0.050	-0.076	0.019	-0.204	0.046	-0.075
GLC	0.225	0.219	0.194	-0.027	0.184	0.218	0.187	-0.021
Market Value	0.123*	0.124*	0.180*	0.120	0.123*	0.123*	0.179*	0.120
Reg Ind	0.091	0.061	-0.191	-0.162	0.107	0.057	-0.160	-0.165
Polconnect×Reg Ind	-0.131	0.278	0.463*	0.479	-0.190	0.296	0.340	0.489
Adj. R ²	0.023	0.015	0.011	0.007	0.024	0.015	0.010	0.007
F-Statistic	1.49	1.32	1.21	1.12	1.53	1.32	1.18	1.12
N	267	262	234	208	267	262	234	208

Continued.

Table 9. Continued.

	Model 5: Former Ministers			Model 6: Senior Civil Servants				
	AQ_post1yr	AQ_post2yr	AQ_post3yr	AQ_median	AQ_post1yr	AQ_post2yr	AQ_post3yr	AQ_median
Intercept	3.271	1.097	0.190	1.608	3.252	1.010	0.257	1.641
Polconnect	-0.073	-0.127	-0.020	0.230	0.402**	0.291	0.207	0.281
Duality	-0.167	-0.235*	-0.155	-0.258	-0.173	-0.235*	-0.161	-0.281
Independent	0.247	0.763	1.730	2.279**	0.268	0.795	1.735	2.246**
Dirage	-0.973*	-0.500	-0.235	-0.380	-0.977*	-0.487	-0.248	-0.378
Underpricing	0.146	-0.258	-0.209	-0.147	0.147	-0.255	-0.212	-0.162
Leverage	0.002***	0.189	0.008	0.056	0.002***	0.190	0.010	0.069
ROA	-0.068	-0.049	-0.144	-0.186*	-0.072	-0.052	-0.148	-0.191*
Exchange	0.025	-0.202	0.049	-0.073	0.029	-0.202	0.052	-0.072
GLC	0.221	0.218	0.199	-0.026	0.188	0.194	0.182	-0.051
Market Value	0.119*	0.122*	0.179*	0.119	0.124*	0.126*	0.180*	0.123
Reg Ind	0.059	0.048	-0.171	-0.143	0.082	0.069	-0.164	-0.148
Polconnect×Reg Ind	-0.013	0.332	0.376	0.421	-0.096	0.236	0.336	0.421
Adj. R ²	0.019	0.017	0.009	0.010	0.025	0.019	0.011	0.010
F-Statistic	1.40	1.35	1.17	1.16	1.54	1.41	1.20	1.15
N	267	262	234	208	267	262	234	208

* = significance at the 10% level (two-tailed test), ** = significance at the 5% level (two-tailed test), *** = significance at the 1% level (two-tailed test) using White heteroskedasticity-consistent t-statistics.

Notes:

- This table presents the regression results for the abnormal firm value. The industry-adjusted Tobin's Q is measured by the sample firm's Tobin's Q minus the industry median Tobin's Q. The industry classification is based on the two-digit SIC code.
- Dependent variables $AQ_post1yr$, $AQ_post2yr$, and $AQ_post3yr$ are the industry-adjusted Tobin's Q estimates 1, 2, and 3 years after an IPO. "AQ_median" is the median industry-adjusted Tobin's Q estimate over the 3 years.
- The independent variables were defined as follows.
 - Polconnect* is a dummy variable that takes the value of 1 if the director is politically connected, 0 otherwise. It is proxied by politically connected chairmen/CEOs, current political appointees, former political appointees, members of Parliament, former ministers, and senior civil servants in models 1 to 6.
 - Duality* occurs when the chairman is also the CEO.
 - Independent* is the percentage of independent directors on the board.
 - Dirage* is the average age of the firm's directors.
 - Underpricing* is computed as the difference between the first day's closing price and offer price, computed as a percentage of the offer price.
 - Leverage* is total debt divided by total assets.
 - ROA* is the return on assets prior to the IPO.
 - Exchange* is a dummy variable taking on the value of 1 if the firm is listed on the main board of the SGX, 0 otherwise.
 - GLC* is a dummy variable taking on the value of 1 if the firm is a government-linked corporation, 0 otherwise.
 - Market Value* is the first day's closing price multiplied by the number of shares outstanding after the IPO.
 - Reg Ind* is a dummy variable representing the more highly regulated industries including electrical and electronic equipment (SIC 36), holding and other investment offices (SIC 67), general building contractors (SIC 15), food and kindred products (SIC 20), and rubber and miscellaneous plastics products (SIC 30).
 - Polconnect×Reg Ind* is the interaction term of *Polconnect* and *Reg Ind*.

Source: Securities Data Corporation (SDC) Global New Issue database, IPO prospectus, and Thomson One Banker database.

Table 10. Regression Results of Abnormal Stock Returns

	XRET1	XRET2	XRET3	XRET1	XRET2	XRET3	XRET1	XRET2	XRET3	XRET1	XRET2	XRET3
	Model 1: Politically Connected Chairmen/CEOs						Model 2: Current Political Appointees			Model 3: Former Political Appointees		
Intercept	-0.487	-1.962	-2.192	-0.478	-1.906	-2.098	-0.222	-1.991	-2.458			
Polconnect	-0.025	-0.102	-0.218	-0.021	-0.014	0.061	0.030	-0.135	-0.225*			
Duality	0.062	-0.016	-0.204*	0.062	-0.010	-0.194*	0.076**	-0.014	-0.222*			
Independent	0.108	-0.456	0.334	0.114	-0.452	-0.035	0.078	-0.438	-0.274			
Dirage	-0.297	-0.071	0.052	-0.300	-0.094	-0.091	-0.369*	-0.057	0.041			
Underpricing	-0.124**	-0.210**	-0.306**	-0.122**	-0.213**	-0.309**	-0.127**	-0.204**	-0.299**			
Leverage	-0.0003**	-0.0004*	0.003	-0.0003**	-0.0004*	0.016	-0.0003**	-0.0004*	-0.009			
Exchange	0.089**	0.006	-0.211*	0.088**	0.0002	-0.208*	0.092**	0.021	-0.198			
GLC	-0.040	-0.063	-0.233	-0.040	-0.062	-0.219	-0.015	-0.065	-0.235			
Market Value	0.117***	0.194***	0.226***	0.117***	0.197***	0.227***	0.117***	0.192***	0.219***			
Reg Ind	-0.008	-0.145*	-0.294***	-0.008	-0.151*	-0.298***	-0.055	-0.193**	-0.315***			
Polconnect × Reg Ind	-0.004	0.120	0.103	-0.007	0.130	0.080	0.252*	0.334*	0.120			
Adj. R2	0.154	0.087	0.083	0.154	0.087	0.082	0.181	0.096	0.093			
F-Statistic	6.20***	3.21***	2.35**	6.21***	3.21***	2.34**	7.34***	3.45***	2.53***			
N	316	255	165	316	255	165	316	255	165			
	Model 4: Members of Parliament						Model 5: Former Ministers			Model 6: Senior Civil Servants		
Intercept	-0.301	-1.923	-2.220	-0.454	-1.896	-2.090	-0.483	-1.933	-2.105			
Polconnect	0.010	-0.077	-0.106	0.116	-0.037	-0.097	-0.0002	-0.204*	-0.036			
Duality	0.077**	-0.002	-0.211*	0.064*	-0.017	-0.210*	0.064*	-0.013	-0.208*			
Independent	0.065	-0.461	-0.261	0.123	-0.453	-0.317	0.103	-0.439	-0.285			
Dirage	-0.351*	-0.081	-0.044	-0.317*	-0.084	-0.071	-0.299	-0.075	-0.102			
Underpricing	-0.126**	-0.202**	-0.312**	-0.125**	-0.215**	-0.311**	-0.124**	-0.205**	-0.328**			
Leverage	-0.0003***	-0.0005**	0.003	-0.0003**	-0.0004*	0.016	-0.0003**	-0.0004*	0.038			
Exchange	0.093**	0.009	-0.213	0.085**	-0.002	-0.212*	0.088**	0.011	-0.220*			
GLC	-0.020	-0.063	-0.234	-0.035	-0.061	-0.230	-0.039	-0.063	-0.237			
Market Value	0.119***	0.195***	0.225***	0.120***	0.193***	0.222***	0.117***	0.192***	0.232***			
Reg Ind	-0.053	-0.194**	-0.306***	0.0002	-0.137*	-0.289***	-0.003	-0.147*	-0.304***			
Polconnect × Reg Ind	0.216	0.293	0.082	-0.137	-0.118	-0.107	-0.121	0.207	0.528***			

Continued.

Table 10. Continued.

	XRET1	XRET2	XRET3	XRET1	XRET2	XRET3	XRET1	XRET2	XRET3	XRET1	XRET2	XRET3
	Model 4: Members of Parliament			Model 5: Former Ministers			Model 6: Senior Civil Servants					
Adj. R2	0.172	0.094	0.084	0.158	0.088	0.083	0.155	0.089	0.084	0.155	0.089	0.084
F-Statistic	6.96***	3.40***	2.37***	6.38***	3.22***	2.35**	6.25***	3.26***	2.37***	6.25***	3.26***	2.37***
N	316	255	165	316	255	165	316	255	165	316	255	165

* = significance at the 10% level (two-tailed test), ** = significance at the 5% level (two-tailed test), *** = significance at the 1% level (two-tailed test) using White heteroskedasticity-consistent t-statistics.

Notes:

- This table presents the regression results for the buy and hold abnormal stock returns. The abnormal return is measured by the sample firm's stock return minus the market return proxied by the Straits Times Index (STI) in Singapore. The dependent variables *XRET1*, *XRET2*, *XRET3* are the buy and hold abnormal stock returns compounding in post-IPO 1, 2, and 3 years, respectively.
 - The independent variables were defined as follows.
 - Polconnect* is a dummy variable that takes the value of 1 if the director is politically connected, 0 otherwise. It is proxied by politically connected chairmen/CEOs, current political appointees, former political appointees, members of Parliament, former ministers, and senior civil servants in Models 1 to 6.
 - Duality* occurs when the chairman is also the CEO.
 - Independent* is the percentage of independent directors on the board.
 - Dirage* is the average age of the firm's directors.
 - Underpricing* is computed as the difference between the first day's closing price and offer price, computed as a percentage of the offer price.
 - Leverage* is total debt divided by total assets.
 - Exchange* is a dummy variable taking on the value of 1 if the firm is listed on the main board of the SGX, 0 otherwise.
 - GLC* is a dummy variable taking on the value of 1 if the firm is a government-linked corporation, 0 otherwise.
 - Market Value* is the first day's closing price multiplied by the number of shares outstanding after the IPO.
 - Reg Ind* is a dummy variable representing the more highly regulated industries including electrical and electronic equipment (SIC 36), holding and other investment offices (SIC 67), general building contractors (SIC 15), food and kindred products (SIC 20), and rubber and miscellaneous plastics products (SIC 30).
 - Polconnect* × *Reg Ind* is the interaction term of *Polconnect* and *Reg Ind*.
- Source: Securities Data Corporation (SDC) Global New Issue database, IPO prospectus, and Datastream.

Table 11. Board Composition of Regulated Industries

	Politically Connected		Nonpolitically Connected		Difference	
	Mean	Median	Mean	Median	Mean	Median
Board size	6.697	7.000	6.891	6.000	-0.194	1.000
Duality	0.455	0.000	0.598	1.000	-0.143	-1.000
Independent directors	2.394	2.000	2.424	2.000	-0.030	0.000
Independent directors/board size	0.363	0.333	0.360	0.333	0.003	0.000
Executive directors	2.879	3.000	3.239	3.000	-0.360	0.000
Executive directors/board size	0.440	0.400	0.461	0.500	-0.021	-0.100
Director age	48.167	48.000	46.500	46.000	1.667	2.000**
Management ownership	0.409	0.330	0.393	0.343	0.016	-0.013
GLC	0.030	0.000	0.022	0.000	0.009	0.000

* = significance at the 10% level (two-tailed test), ** = significance at the 5% level (two-tailed test), *** = significance at the 1% level (two-tailed test), GLC = government-linked corporation.

Notes:

1. This table reports the descriptive statistics of board composition for politically connected and nonpolitically connected firms in the more highly regulated industries.
2. More highly regulated industries include electrical and electronic equipment (SIC 36), holding and other investment offices (SIC 67), general building contractors (SIC 15), food and kindred products (SIC 20), and rubber and miscellaneous plastics products (SIC 30).
3. t-statistics and z-statistics based on Wilcoxon signed ranks test were used to test for mean and median differences, respectively.

Source: Securities Data Corporation (SDC) Global New Issue database and IPO prospectus.

We find from the Tobin's Q results in Table 9 that firms with politically connected chairmen or CEOs are associated with a significant positive value effect. From Table 10, senior civil servants contribute to a significant positive abnormal return 3 years post-IPO. All other forms of political connection have either very weak or no impact on firm value.

Further analysis of the five regulated industries (see Table 11) reveals that, compared to firms that have no political connection within the same industries, PC firms have a smaller board size, less occurrence of duality in the chairman and CEO functions, a larger independent directors-to-board-size ratio, a smaller percentage of executive directors, slightly older directors, a larger percentage of management ownership, and a higher proportion of GLCs. These differences, though not statistically significant, provide anecdotal evidence of the composition of PC boards.

We further investigate the impact from a major event—a change in Singapore's Code of Corporate Governance, issued 14 July 2005, requiring all listed companies to disclose their corporate governance practices and explain deviations from the Code in their annual reports for annual general meetings held from 1 January 2007 onwards. Our results on the announcement effect reveal that PC directors do not add value to their firms both before and after the imposition of the new disclosure requirement. However, as shown in Table 12, after controlling for the presence of PC directors, firms in the more highly regulated industries appear to have a statistically significant impact on firm value as measured by the industry-adjusted Tobin's Q.

Table 12. Regression Analysis under the New Corporate Governance Code

	Model 1	Model 2	Model 3
	Full Period	Pre-event	Post-event
Intercept	5.553** (2.01)	4.979* (1.64)	0.026 (0.01)
Polconnect	0.841 (1.20)	0.767 (1.07)	1.892 (0.63)
Duality	-0.190 (-1.32)	-0.264* (-1.89)	0.433 (1.17)
Independent	0.210 (0.35)	0.382 (0.63)	0.584 (0.26)
Dirage	-1.758*** (-2.63)	-1.533** (-2.19)	-1.172 (-0.92)
Underpricing	0.070 (0.48)	-0.072 (-0.45)	1.585*** (5.30)
Leverage	0.002*** (3.31)	-0.468 (-1.34)	0.001 (1.08)
Exchange	0.019 (0.14)	-0.074 (-0.53)	-0.594 (-1.51)
GLC	-0.161 (-0.73)	-0.024 (-0.14)	-1.993*** (-3.51)
Market Value	0.121** (2.06)	0.130** (2.05)	0.363** (2.27)
Reg Ind	0.048 (0.39)	-0.026 (-0.21)	1.024** (1.96)
Event	-0.102 (-0.41)	-	-
Adj. R ²	0.027	0.022	0.123
F-Statistic	1.63*	1.50	1.39
N	252	223	29

* = significance at the 10% level (two-tailed test), ** = significance at the 5% level (two-tailed test), *** = significance at the 1% level (two-tailed test) using White heteroskedasticity-consistent t-statistics.

Notes:

1. This table presents the regression results for the abnormal firm value during the pre-event and post-event. The event is the new corporate governance code adopted in 14 July 2005.
2. The industry-adjusted Tobin's Q is measured by the sample firm's Tobin's Q minus the industry median Tobin's Q. The industry classification is based on the 2-digit SIC code.
3. The dependent variable *AQ_post1yr* is the industry-adjusted Tobin's Q a year after an IPO.
4. The independent variables were defined as follows.
 - *Polconnect* is a dummy variable that takes the value of 1 if the director is politically connected, 0 otherwise. It is proxied by politically connected chairmen/CEOs, current political appointees, former political appointees, members of Parliament, former ministers, and senior civil servants in Models 1 to 6.
 - *Duality* occurs when the chairman is also the CEO.
 - *Independent* is the percentage of independent directors on the board.
 - *Dirage* is the average age of the firm's directors.
 - *Underpricing* is computed as the difference between the first day's closing price and offer price, computed as a percentage of the offer price.
 - *Leverage* is total debt divided by total assets.
 - *Exchange* is a dummy variable taking on the value of 1 if the firm is listed on the main board of the SGX, 0 otherwise.
 - *GLC* is a dummy variable taking on the value of 1 if the firm is a government-linked corporation, 0 otherwise.
 - *Market Value* is the first day's closing price multiplied by the number of shares outstanding after the IPO.
 - *Reg Ind* is a dummy variable representing the more highly regulated industries including electrical and electronic equipment (SIC 36), holding and other investment offices (SIC 67), general building contractors (SIC 15), food and kindred products (SIC 20), and rubber and miscellaneous plastics products (SIC 30).
 - *Event* is a dummy variable that takes the value of 1 if the IPO was issued under the new corporate governance code regime (14 July 2005), 0 otherwise.

Source: Securities Data Corporation (SDC) Global New Issue database, IPO prospectus, Thomson One Banker database, and Singapore Code of Corporate Governance 2005.

We provide results of a logistic regression in Table 13 to reflect the demand for politically connected directors. The coefficient for director age is found to be positively significant. This means that PC firms have directors that are more experienced in guiding their firms than non-PC firms. PC firms also appear to have stronger corporate governance as evidenced by their lower likelihood of duality in their chairman and CEO functions and a smaller percentage of executive directors.

On the whole, the results show that, in Singapore, political connection in a non-corrupt regime in general does not affect firm value. However, firms in industries that are more highly regulated appear to receive some benefit in terms of higher firm valuation from their political connections. In particular, companies with a politically connected chairman/CEO or senior civil servant on their board benefit the most in terms of a positive effect on firm value. PC firms, by virtue of their being perceived as having good governance under a low corruption environment where government regulations are followed, such companies may be attractive business partners to other businesses and governments.

VI. Summary and Conclusions

Political connection is a double-edged sword. On the one hand, firm value can be jeopardized if exploiting such connections distorts incentives, misallocates investment, and increases the extent of corruption (Shleifer and Vishny 1994). On the other hand, politically connected companies may benefit through easier access to debt financing, lower taxes, and stronger market power (Faccio 2006). Although the effect of political connections has been previously investigated, our contribution is to examine for the first time the impact of politically connected directors on the value of firms operating in an environment where the perceived level of corruption is comparatively low due to better institutions and not confounded by favorable social and cultural factors. Singapore is ideal for the study as it is not only among the countries with the lowest level of corruption, but it is also free of confounding factors such as an innate culture among countries with the lowest political corruption. We study this issue at a firm's inception (i.e., at IPO), where most of the new politically connected directors are appointed at the same time and their impact, if any, has not been anticipated as would be the case at any arbitrary time after an IPO.

We study the effect of political connection on the value of a company in a low political corruption environment by examining the industry-adjusted Tobin's Q and the excess returns of newly-listed companies from 1998 to 2006. Firm value, within 3 years from the issue of an IPO, is found largely to be independent of a firm's political connection, even after controlling for differences in corporate governance and firm characteristics. Importantly, such connections do not reduce firm value. However, when the sample is broken down in terms of industry, we find that firms operating in a more highly regulated environment appear to receive some benefit

Table 13. Logistic Regression Results of Politically Connected Directors

	Model 1	Model 2	Model 3
Intercept	2.129	-0.273	-0.081
Market Value	-0.193	-0.236	-0.253
ROA	-0.043	-0.065	-0.073
Leverage	-0.012*	-0.011	-0.014*
Underpricing	0.114	0.273	0.324
GLC	0.295	0.116	0.181
Exchange	0.063	0.478	0.503
Board Size		-0.124	-0.128
Duality		-0.538*	-0.589*
Dirage		0.087***	0.091***
Independent		-0.106	-0.041
IO		-0.005	-0.005
Industry1			-0.011
Industry2			-0.316
Industry3			0.395
Industry4			-0.584
Industry5			0.551
Industry6			0.740
Industry7			0.215
Industry8			0.234
Industry9			0.026
Industry10			-1.639
Cox & Snell R ²	0.017	0.077	0.101
-2 Log Likelihood	407.62	304.89	297.34
N	429	429	429

* = significance at the 10% level (two-tailed test), ** = significance at the 5% level (two-tailed test), *** = significance at the 1% level (two-tailed test) using Wald z-statistics.

Notes:

- This table presents the results of the demand for politically connected directors. The dependent variable is the dummy variable that takes the value of 1 if the IPO is politically connected and 0 otherwise.
- The independent variables were defined as follows:
 - Market Value* is the first day's closing price multiplied by the number of shares outstanding after the IPO.
 - ROA* is the return on assets prior to the IPO.
 - Leverage* is total debt divided by total assets.
 - Underpricing* is computed as the difference between the first day's closing price and offer price, computed as a percentage of the offer price.
 - GLC* is a dummy variable taking on the value of one if the firm is a government-linked corporation and zero if otherwise.
 - Exchange* is a dummy variable taking on the value of 1 if the firm is listed on the main board of the SGX, 0 otherwise.
 - Board Size* is the total number of board members.
 - Duality* occurs when the chairman is also the CEO.
 - Dirage* is the average age of the firm's directors.
 - Independent* is the percentage of independent directors on the board.
 - IO* is the institutional ownership of the IPO.
 - Industry 1, 2, 3, 4, 5, 6, 7, 8, 9, and 10* are dummy variables taking the value of 1 if the 2-digit SIC codes are 36, 67, 73, 87, 28, 15, 20, 30, 50, and 35, respectively; 0 otherwise.

Source: Securities Data Corporation (SDC) Global New Issue database and IPO prospectus.

from their political connection in terms of a higher firm valuation, especially among those with a politically connected chairman/CEO or senior civil servant on their board. As PC directors have been shown to be associated with better governance practices, their presence on corporate boards may thus compel firms to better adhere to government regulations. Thus, because PC firms are perceived as having good governance under a low corruption environment and strictly observe government regulations, other firms and governments may be attracted to forming business relationships with them.

We find that firms with politically connected directors are associated with good governance practices such as nonduality in their chairman and CEO and fewer executive directors. We show that PC firms have higher managerial ownership and tend to be smaller than non-PC firms. Firms with such characteristics may typically be expected to have a lower valuation compared to those that are larger or have a lower percentage of management ownership. Our results show that the presence of PC directors appears to have somewhat neutralized any negative effects with its association with better corporate governance. Thus, having a politically connected director on the board may be used as a signal by a firm to investors that it is subject to adequate appropriate monitoring mechanisms. As the supply of good candidates for outside independent directors is often limited, firms would be inclined to invite such “politicians” to serve on their board, not because of their political connections and potential economic payoffs but as a means of expanding their list of good candidates for independent directors.

In conclusion, the findings of this study suggest that, despite the lack of strong economic value that political connection per se brings to firms, politically connected directors may still contribute to the firm when they serve as independent directors within a noncorrupt political environment. We provide evidence that companies in certain highly regulated industries may find that having certain types of directors who are politically connected could have a positive and significant impact on their firm’s value.

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