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*Political Relationships, Global Financing
and Corporate Transparency*

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Abstract

This study examines the financing choices of firms operating in a weak institutional environment. We argue that in relationship-based systems, global financing and political connections are substitutes: Well-connected firms are less likely to access foreign capital markets because (state-owned) domestic banks provide capital at low cost. Moreover, the additional scrutiny that comes with foreign securities might be at odds with close political ties at home. Using data from Indonesia, we provide strong support for this hypothesis. Firms with close political ties to former President Soeharto are significantly less likely than non-connected firms to have publicly traded foreign securities. We also examine how returns before and during the Asian financial crisis differ between firms with and without foreign securities. The former performed significantly better during the crisis, and their performance advantage increases considerably once we control for a firm's closeness to the Soeharto regime. We show that simple return regressions in earlier work are downward biased if domestic opportunities such as political connections are ignored.

JEL classification: P16, G32, G38, K22, K42, M41, G18

Key Words: Disclosure; Cross listing; Financing choices; Emerging market economies; Asian financial crisis; Indonesia; Cost of capital

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1. Introduction

In designing their corporate strategies, firms systematically seek to anticipate and exploit opportunities in their business environment. While many of these opportunities present themselves in markets, firms can also invest in political relationships (e.g., Stigler, 1971; Krueger, 1974; Baron, 2001). This latter possibility is particularly attractive in economies that are based on personal connections rather than arms-length transactions in markets (Rajan and Zingales, 1998). In this paper, we explore the link between a firm's domestic opportunities and its foreign financing decisions. In particular, we ask if the pursuit of political connections changes the likelihood that firms operating in a weak institutional environment access global capital markets.

We study this question for two reasons. Ever since the liberalization of capital markets, foreign capital has become an increasingly important source of finance for these firms (Karolyi, 1998). In the mid 1990s, Asian firms raised \$1 in foreign equity markets for every \$3 they raised domestically (Bekaert, Harvey and Lumsdaine, 2002). Thus, it is important to understand which firms are likely to take advantage of this new opportunity.

More importantly, the decision to issue securities that are traded on foreign exchanges often forces firms to adapt to these markets. Firms with foreign securities come under the scrutiny of foreign institutional investors, financial analysts, the international business press and foreign regulators. Thus, the decision to finance the firm globally carries potentially important implications for the availability of information about the firm and the quality of corporate governance, two important determinants of stock returns in emerging markets (Johnson et al., 2000; Mitton, 2002; Lemmon and Lins, 2003). These informational consequences of global

financing decisions are the second reason for our interest in emerging-market firms' decision to access foreign capital markets.

We argue that firms' domestic opportunities are likely to interact with their foreign financing decisions. However, it is not a priori obvious whether firms with strong political connections are more or less likely to access global capital markets. There are good theoretical reasons to believe that firms with stronger political relationships are less likely to finance themselves globally. In emerging economies, close political ties often offer access to low-cost financing from (state-owned) banks. The lower the costs of domestic capital, the weaker are the incentives to access foreign markets. Moreover, the additional scrutiny that comes with publicly traded foreign securities may be particularly costly to firms with close political ties. High levels of transparency and public attention may be difficult to reconcile with political favors of often dubious legality. For instance, in many weakly regulated markets, firms are free to engage in undisclosed related-party transactions benefiting controlling insiders and political backers. Transactions of this type must be reported once the firm's securities are traded on a major U.S. exchange. These arguments suggest that political connections and global financing are substitutes.

On the other hand, there are equally valid reasons to believe that well-connected firms are more likely to have foreign securities. Close political ties afford more attractive business opportunities and increase firm value (Fisman, 2001; Faccio, 2002). Hence, closely connected, fast growing firms with a high demand for capital might find it particularly attractive to tap into foreign markets. From the perspective of foreign investors, valuable well-connected firms might be the most interesting investment opportunities an emerging-market economy has to offer.

These reasons suggest that close political ties and access to foreign capital markets are complements.

In view of the conflicting arguments, the relation between firms' financing strategies and their political connections is ultimately an empirical question. In this paper, we examine this relation using data from Indonesia. Indonesia's crony capitalism under former President Soeharto provides a particularly suitable setting to examine firms' financing choices. First, there is ample evidence that the Soeharto regime provided substantial economic benefits to politically well-connected firms (Fisman, 2001). Moreover, Indonesia's centralized power structure during the Soeharto era facilitates the measurement of political connections. Second, Indonesia has low levels of mandatory disclosure, creating a substantial informational difference between firms with and without foreign securities. Finally, the Asian financial crisis towards the end of the Soeharto era provides an economic shock that we can exploit to assess the performance consequences of publicly traded foreign securities and political connections.

In our analysis, we find strong support for the view that foreign securities and close political connections are substitutes: Firms that are close to the Soeharto regime are significantly less likely to have publicly traded securities abroad. They are also less likely to have debt or equity securities traded on US exchanges. These findings hold after controlling for firm size, financial leverage, firm profitability, and industry characteristics. We carefully test for the possibility that our findings are due to unobserved heterogeneity among the sample firms. Using an instrumental-variable strategy, we find no evidence that our closeness measure is endogenous to the choice of foreign securities. We also demonstrate that our results are not driven by differences in volatility, firms' reactions to bad news, or their exposure to foreign and domestic product markets.

There are at least three explanations for our results. First, it is well known that Indonesian firms with close ties to the regime had preferential access to financing, typically from state-owned banks (Backman, 2001). Once such funds become available, the benefits of foreign securities are simply smaller. Second, foreign securities require greater transparency, which is likely to impede politically arranged financing via covert operations with state-owned banks. And third, low transparency facilitates the extraction of private benefits of control, which has been suggested as another reason why firms from countries with weak institutional structures do not cross list in the US despite evidence of substantial cross listing benefits (e.g., Doidge, Karolyi and Stulz, 2001; Reese and Weisbach, 2002). These three explanations are not mutually exclusive. To shed further light on the mechanism underlying our results, we analyze privately placed foreign securities which allow access to foreign capital markets but do not come with additional public scrutiny. We find that Indonesian firms with close ties to the Soeharto regime are as likely to have privately arranged foreign securities as firms without connections. This result is consistent with the view that the informational consequences of publicly traded securities play a role for the documented tradeoff between political connections and foreign financing.

Our findings have important empirical implications. For instance, a key question in the literature on cross listings is whether or not foreign securities are effective legal bonding devices which commit firms operating in weak institutional environments to better corporate governance (Fan and Wong, 2001; Doidge et al., 2001; Reese and Weisbach, 2002; Siegel, 2002). In support of this view, recent studies show that Asian firms with higher-quality disclosures and less problematic ownership structures exhibit significantly higher returns during the Asian financial crisis (Mitton, 2002; Lemmon and Lins, 2003). However, if domestic sources of firm value – for

instance President Soeharto's attempts to save firms close to the regime¹ – are omitted from these analyses, the resulting estimates are likely to be biased. In a re-analysis of returns during the crisis, we do indeed find significant bias in simple performance regressions that fail to consider the value of political connections. Our analysis shows that the performance effects associated with publicly traded foreign securities increase considerably once we control for a firm's closeness to the Soeharto regime, indicating that foreign securities and political connections contributed to firm value during the crisis. This result is consistent with and complements recent evidence by Johnson and Mitton (2003) who show that politically well-connected firms in Malaysia benefited from the imposition of capital controls during the Asian crisis.

Finally, we note that the link between political ties and global financing has *consequences* for corporate transparency even if the increased scrutiny associated with foreign securities does not *cause* firms to stay at home. Because strong political ties discourage firms from issuing publicly traded foreign securities – the main insight of this study – corporate transparency is less likely to improve in countries where political connections play an important part in economic activity.

The paper is organized as follows. Section 2 describes the institutional setting and our research design. Section 3 explains the sample and the data. In section 4, we present the main results for firms' foreign financing decisions. Section 5 explores whether our results are specific

¹ There is ample anecdotal evidence that Soeharto tried to protect well-connected firms. The Texmaco group for example received loans in excess of US\$ 1 billion from Bank Negara Indonesia, one of Indonesia's largest state banks. The loans far exceeded the bank's legal lending limit, but were approved by Soeharto "as a means to prop up the conglomerate after the Asian financial crisis" (Solomon, 1999). Texmaco's founder, Marimutu Sinivasan, is said to be a long-time friend of President Soeharto.

to the type of foreign security. In section 6, we present the performance tests, and section 7 concludes the paper.

2. Institutional Setting and Research Design

A key premise of our approach is the idea that political connections constitute a source of firm value. There is empirical evidence supporting this view, both for Indonesia (Fisman, 2001) and for a larger set of economies. For instance, connected firms pay fewer taxes and have larger market shares (Faccio, 2002). In Indonesia, the Soeharto regime often arranged preferential financing for well-connected firms (so-called “memo-lending”). An example of the early 1990s is Golden Key, a little-known chemical and manufacturing group, which received an unsecured loan of \$430 million from the state-owned Bank Pembangunan Indonesia. Court proceedings subsequently revealed that Hutomo Mandala Putra, the youngest son of President Soeharto, was an early investor in Golden Key and had introduced the firm to bank officials who approved the loan at “neck-breaking speed” (McBeth, 1994). Similarly, the Barito Pacific group received huge loans from state banks prior to the crisis. Political connections are widely cited as the reason behind the state banks’ generosity (Borsuk, 1993).

The benefits of political connections are not confined to debt financing. Barito Pacific’s 1993 Indonesian stock offering, for instance, was greatly helped by the state civil-service pension fund acquiring a 20% stake. Barito denied allegations that it needed the pension fund’s entry to “shore up the company before it could go public,” but analysts noted that the fund’s investment substantially boosted the company’s capital (Borsuk, 1993). A further source of value for politically well-connected firms is the granting of important licenses. The Salim

Group, one of the largest Indonesian conglomerates, had very close ties with President Soeharto and was awarded lucrative franchises in banking, flour milling and telecoms (Shari, 1998).

These anecdotes illustrate that political connections are one way to obtain low-cost financing and other economic advantages. An alternative strategy to increase value is to access foreign capital markets. The issuance of foreign securities can lower the cost of capital, help to overcome the obstacles of segmented markets (Stulz, 1981 and 1999; Errunza and Miller, 2000), and increase the firm's value by fostering its recognition among analysts and investors (Merton, 1987; Lang, Lins and Miller, 2003). Some authors have also argued that cross-listings improve corporate transparency and investor protection and hence the value of the firm to outsiders. This claim is the subject of an ongoing debate. Coffee (1999, 2002), Mitton (2002) and Reese and Weisbach (2002) provide evidence in favor of the hypothesis. Fanto (1996), La Porta, Lopez-de-Silanes and Shleifer (1999), Licht (2001), and Siegel (2002) are more skeptical.

To better understand the performance and governance effects of global financing strategies, it is important to understand *why* firms choose to issue foreign securities. The incentives to do so depend in part on the relation between the value of access to foreign capital markets and firms' domestic business opportunities. If cross-listed firms were equally able to exploit political connections, we would expect firms to simultaneously invest in domestic relationships and access foreign capital markets. However, if issuing publicly traded foreign securities forces firms to give up domestic business opportunities, those with good opportunities might be reluctant to access foreign markets.

To examine the relation between political ties and corporate transparency, we analyze the likelihood of Indonesian firms having publicly traded foreign securities. We also examine which firms have debt or equity securities traded on major US exchanges. In this case, firms have to

file Form 20-F with the SEC, which requires extensive disclosures (e.g., on related-party transactions), reconciliations of net income and shareholders' equity under foreign GAAP to U.S. GAAP, and potentially exposes firms to legal threats from the SEC or shareholders (Coffee, 2002).

3. Sample and Data

Our tests require financial statement and share price data. We obtain financial data from the Worldscope database. In 1997, the database comprises 151 Indonesian firms. We lose 13 firms because we are unable to find share price data on Datastream. In addition, we drop 8 firms that are not traded over our sample period. Thus, the final sample consists of 130 firms, representing over 80% of the Indonesian market capitalization in December 1996.

Next, we search for foreign securities of Indonesian firms using the SDC database, Datastream, the Global Access database, SEC filings on Edgar, and the Bank of New York's ADR list. We identify 22 firms with publicly traded debt and equity securities on 6/30/1997, shortly before the beginning of the Asian crisis. In this count, we do not include foreign securities that are private debt agreements or private equity placements because these arrangements allow investors to be informed via private channels rather than public disclosure.

Our measure of political connections is based on Fisman (2001). His study shows that firms that are close to Soeharto suffer negative returns when bad news about the President's health hit the market. Based on this result, we compute for each firm a cumulative stock return over the six

health-related events identified by Fisman (2001).² The cumulative return over the 6 events is on average -4.6% and exhibits considerable cross-sectional variation. Some firms lose more than 20% of their value over these 6 events. We multiply the cumulative returns by -1 so that larger realizations indicate greater closeness to Soeharto. This variable is our proxy for political connections.

Table 1 reports descriptive statistics for all firms and the two subsamples. All financial statement data is measured as of the fiscal year end in 1996. As expected, firms with publicly traded foreign securities are significantly larger than those without such securities. They are also more capital intensive and have more long-term debt. Both groups exhibit similar accounting returns on assets.

4. The Choice of Foreign Securities

4.1 Main Results

We begin our analysis by studying firms' decisions to have publicly traded foreign securities. In our empirical model, the net benefit of foreign securities y_i^* depends on a vector of firm characteristics X_i , the closeness to the Soeharto regime C_i , and industry fixed effects \mathbf{m}_j :

$$(1) \quad y_i^* = X_i \mathbf{b} + \mathbf{g} C_i + \mathbf{m}_j + \mathbf{e}_i$$

If firms with closer connections to the Soeharto regime are less likely to have foreign securities, we observe that $\mathbf{g} < 0$. Prior studies identify firm size and the export level of a firm's

² The event days are January 30 – February 1, 1995; April 27, 1995; April 29, 1996; July 4 – 9, 1996; July 26, 1996; April 1-3, 1997. For further details on the events see Fisman (2001). There are 7 firms, for which we do not have return data for all 6 events. Dropping these firms does not materially alter our results or inferences. The results are also very similar using the average rather than the cumulative return over the 6 events.

industry as important factors influencing the decision to cross list shares abroad (Saudagaran, 1988; Saudagaran and Biddle, 1995; Karolyi, 1998).³ A basic specification therefore controls for industry effects and firm size, measured by total assets (model 1).⁴ A firm's financing needs and its profitability may also influence its inclination to tap into global capital markets. We add to the base model capital intensity as a proxy for financing needs and the return on assets as our measure for profitability (model 2). The former is computed as the ratio of fixed assets to total assets and the latter is measured as the ratio of operating income to total assets. Another control variable, which is frequently used in the literature, is financial leverage (Healy and Palepu, 2001; Johnson and Mitton, 2003). We compute leverage as the ratio of long-term debt to total assets (model 3).

The net benefit of foreign securities y_i^* is unobserved, but we know which firms have foreign securities:

$$(2) \quad y_i = \begin{cases} 1 & \text{if } y_i^* > 0 \\ 0 & \text{if } y_i^* \leq 0 \end{cases}$$

Given the binary nature of our dependent variable, we present probit estimates in Table 2. Standard errors in parentheses are clustered on business group affiliation to account for the possibility that within-group financing strategies might be correlated (Khanna and Palepu, 2000; we use data from Claessens et al., 2000 and Fisman, 2001). The models explain a substantial fraction of the cross-sectional variation in firms' foreign financing choices. The key result is that firms with strong political connections are less likely to have foreign securities. The estimated

³ It would be desirable to include the percentage of sales abroad as a firm-specific control, but for most sample firms this data is not available in the Worldscope database.

coefficient in the first specification of Table 2 implies that increasing closeness to Soeharto by one-standard deviation reduces the likelihood of a firm having foreign securities by about 5 percentage points.

The result that political connections and foreign securities are negatively associated continues to hold in the extended models 2 and 3 where we control for firm profitability (ROA), financing needs (capital intensity) and financial leverage. The results are also very similar if we use other proxies for financing needs and profitability, namely average sales growth and EBITDA over total assets (not tabulated).⁵ 11 firms in our sample are subsidiaries and affiliates of foreign firms. As the tradeoff between domestic political benefits and foreign financing could be different for these firms, we drop them to test the robustness of our results (model 4). As before, we find that firms with better political connections are less likely to have foreign securities.

Firms' stock returns during the days leading up to Soeharto's resignation in 1998 are an alternative measure for their closeness to the regime. The idea is again that corporations close to Soeharto are likely to experience negative returns when he resigns. As it is not clear at which point the stock market expected Soeharto to step down, we accumulate returns over the period from May 12 through May 21 1998.⁶ We use this cumulative return, again multiplied by -1,

⁴ Using the market value of equity as a proxy for firm size yields even stronger results. We use total assets because market capitalization could be affected by firms' financing choices.

⁵ We also control for a firm's average trading volume over the event days. This variable addresses the concern that infrequent trading of some stocks could affect our results, i.e., bias the Soeharto measure towards zero. However, including trading volume leaves our results virtually unchanged.

⁶ On May 12, student protests calling for Soeharto's resignation gained momentum and widespread support. On May 15, a wing of the ruling Golkar party called for his resignation. The upper house of the Parliament joined these calls on May 18 (Cohen, 1998; DJ Newswire, 5/18/1998). Suharto finally resigned on May 21.

along with all our controls in model 5. We continue to find that more closely connected firms are less likely to have foreign securities.

4.2 Are the results driven by susceptibility to bad news or differences in foreign exposure?

One concern with these results is that the return-based closeness measure could pick up unobserved cross-sectional variation that is unrelated to firms' political connections. One possibility is that closeness captures how strongly a firm reacts to negative market news, irrespective of whether these news concern President Soeharto or other economic events. Another issue might be that the health-based returns reflect differences in firms' exposure to foreign and domestic product markets. Days on which health problems of Indonesia's leader are reported could simply be bad days for the Indonesian economy as a whole, with a disproportionately large negative effect on firms with a strong domestic orientation. We address these concerns by explicitly controlling for a firm's susceptibility to bad news and its exposure to foreign markets.

First, we compute the standard deviation of weekly returns in 1996 and add this measure of historical volatility to the probit model. Firms with more volatile stocks are likely to react stronger to any news event. Table 3 reports this model in the first column. The coefficient on volatility is positive but not significant (p -value = 0.168). More importantly, closeness to the Soeharto regime continues to be highly significant and negatively associated with foreign securities.

Second, we compute cumulative returns over alternative event days with extreme negative market news. To obtain events that are unrelated to the Soeharto regime, we identify the worst five non-adjacent trading days for the Hang Seng Index (Hong Kong) and, separately, for the

Strait Times Index (Singapore) between January 1995 and April 1997.⁷ This is same time period over which the health events occurred. We construct three alternative proxies that capture how strongly a firm's return reacts to bad news. For each sample firm, we compute its cumulative return over (a) the Hong Kong events, (b) the Singapore events, and (c) the days that register as the worst days both in Hong Kong and Singapore. The latter days appear to be Asia-wide bad news. The average cumulative return for our sample firms is -3.8%, -7.4%, and -8.0%, respectively.

Table 3 reports probit models controlling for the returns during the Hong Kong and Singapore events (columns 2 and 3).⁸ The results using returns on the combined event days are similar and not reported for brevity. In all cases, we find that the coefficient on political closeness slightly increases in magnitude and significance. Thus, these tests provide no evidence that differences in firms' responsiveness to negative news in general drive our main result

Next, we control for differences in firms' exposure to foreign markets and the Indonesian economy. We compute stock returns on days with currency shocks, i.e., extreme changes in the Rupiah-Dollar exchange rate. Returns on these days are likely to reflect cross-sectional differences in the degree to which firms are exposed to foreign and domestic product markets. We accumulate returns in two ways. First, to capture positive and negative rate fluctuations, we sum the absolute returns on the three "worst" and three "best" days of the Rupiah-Dollar exchange rate in the time period during which the health events occurred. Second, we compute cumulative returns over the five days during which the Rupiah weakened most significantly

⁷ Adjacent trading days are combined into one event. We make sure that the event windows do not overlap with the Suharto health events. We also examine news reports for these days. We find that the negative returns on these days primarily reflect worldwide equity market movements, interest rate or dollar exchange rate changes.

against the Dollar. On all these days, the Rupiah-Dollar exchange rate changed by more than one percent.

Table 3 reports probit estimates using both exposure measures as additional controls (columns 4 and 5). In both cases, the coefficient on exposure is significant and positive. That is, firms that are more affected by changes in the Rupiah-Dollar exchange rate are more likely to have foreign securities. The positive coefficient on returns for days on which the Rupiah fell against the Dollar suggests that firms with foreign securities generally benefit from a weak Rupiah, perhaps because they are more export-oriented and more engaged in foreign markets. In both models the coefficient on closeness to Soeharto remains negative.⁹

4.3 Is closeness to Soeharto endogenously determined?

While a firm's exposure to foreign markets and its susceptibility to bad news do not explain the relation between political connections and global financing, there is, more generally, a concern that the closeness measure could be endogenously determined. The models in Table 2 assume that firms' political connections are predetermined. This assumption is not unreasonable because many important political connections in Indonesia appear to be family related (Backman, 2001). Similarly, for Malaysia, another country with a centralized political power structure, Johnson and Mitton (2002) argue that political connections are based on chance and have long personal histories. We use an instrumental-variable strategy to address the endogeneity concern.

⁸ There are two observations for which we cannot compute returns for the Singapore events. The worst days in Singapore were in 1995 and early 1996 before these two firms started trading on the Jakarta exchange.

⁹ We note further that controlling simultaneously for historical volatility, susceptibility to bad news and exposure produces similar results to those reported in Table 3. In particular, the closeness measure remains highly significant.

Smith and Blundell (1986) suggest a simple exogeneity test for models with limited dependent variables. The test involves the estimation of a first stage with closeness as the dependent variable. The residuals from the first stage are then included as an additional covariate in the models in Table 2. Under the null hypothesis of exogeneity, the first-stage residuals have no explanatory power at the second stage. The standard order condition for identification applies, so we need at least one instrument for a firm's closeness to the regime.

Our first instrument is the firm's age. We find that younger firms are more likely to have close political connections, possibly because they are in greater need of "political help" early in their lives when they establish themselves in the fairly concentrated Indonesian business environment.¹⁰ Our second instrument is the ethnicity of a firm's president director.¹¹ Given the delicate state of race relations in Indonesia, it is likely that Chinese managers view close political connections with former President Soeharto in a different light than indigenous Indonesians (Pribumis). Empirically, we find that firms with Chinese president directors are much less likely to be close to the regime than firms with indigenous top managers. In Indonesia, political favors of often-dubious legality typically need to be repaid by kickbacks and side payments of equally dubious nature. This practice is risky for any manager, but particularly perilous for Chinese

¹⁰ We thank Benny Tabalujan for suggesting this instrument and providing anecdotal evidence.

¹¹ Indonesian firms have a two-tiered board structure. The president director heads the managing board of directors. Hence, the role of the president director broadly corresponds to the role of the CEO. Information on the ethnicity of the president director and the dominant owner, which we use as an alternative instrument, comes from a large number of publicly available sources such as press reports and company websites. We crosschecked information with an Indonesian accounting firm, an Indonesian stockbroker, and with Indonesian students at the Wharton School. Michael Backman also kindly shared his expertise in these matters. A complete list of all sources is available upon request.

executives because their ethnicity can be used against them.¹² Perhaps for this reason, Chinese managers in our dataset are not as close to the regime as Pribumis.

To be valid instruments, age and ethnicity of the president director must be correlated with political closeness but uncorrelated with the choice of foreign securities. Consistent with this requirement, we do not find evidence that age or ethnicity of the president director influence firms' choices of foreign securities other than through the channel of political connections. When included separately or jointly in the models of Table 2, the coefficients on the instruments remain economically small and statistically insignificant, whereas the closeness variable remains largely unchanged.

At the first-stage, age and the president director's ethnicity are significant predictors of our closeness measure (see *F*-tests for the null that the coefficients on the instruments are zero, reported at the bottom of Table 2.) Our instruments are weaker when we use resignation returns as the measure for political connections. Table 2 also reports *p*-values for the Smith-Blundell exogeneity test. As shown, we cannot reject exogeneity using either age, the ethnicity of the president director or both instruments. In all cases, the *p*-values are far from conventional significance levels. Thus, there is no evidence that our closeness measure is endogenous to the choice of foreign securities.

Overall, the results presented in Tables 2 and 3 lend reasonable support to our hypothesis that domestic opportunities influence firms' foreign financing choices. They suggest that firms

¹² The trial of Golden Key owner Tan Tjoe Hong provides an illustrative example. Accused of having fraudulently secured a \$430 million letter of credit, Hong was subject to a vocal anti-Chinese campaign throughout his trial. The *Far Eastern Economic Review* reports that Indonesians holding anti-Chinese views were paid to attend the court hearings (McBeth, 1994).

with good political connections are less likely to have publicly traded foreign securities.

5. Public and Private Foreign Securities

In this section, we investigate whether our results are specific to the type of foreign securities we analyzed so far. We explore this question in two ways. First, we apply a narrower definition of foreign security using only a subset of issues that are publicly traded on major US exchanges. These securities require a 20-F filing with the SEC and hence come with more stringent disclosure requirements. Second, we analyze foreign securities that are private debt agreements or private equity placements. These arrangements allow investors to be informed via private channels rather than public disclosure. Thus, contrasting the results for private and public foreign securities can shed light on the question whether informational considerations play a role in firms' foreign financing decisions.

We identify 8 firms with US debt or equity securities that require a 20-F filing with the SEC. Table 4 reports the probit estimates using the full set of controls (column 1). Firms that are closer to Soeharto are significantly less likely to have US securities that require a 20-F filing. The result is essentially the same as the one for our broader classification. To determine whether the earlier estimates for the more inclusive classification are solely driven by securities that are publicly traded in the US, we re-estimate the model in Table 2 excluding 20-F firms (column 2). Closeness to Soeharto is still a significant predictor of global financing choices.

Next, we analyze whether firms that are close to the Soeharto regime are more or less likely to have *private* foreign securities such as loans from foreign banks and private placements in the US under Rule 144a. We obtain data from the SDC database on private securities such as term loans, revolving credit facilities, syndicated loans or private equity placements. As private

securities are not traded, it is more difficult to determine what precisely constitutes a foreign security. We create three alternative variables. The first variable indicates that at least one of the lead managers arranging the private security is a foreign investment bank. We identify 64 private securities of this type. The second variable is based on the “market place” indicated in SDC, i.e., the region the private placement is targeted at (e.g., Asia, Europe or the US). Our indicator is set to one if the firm’s securities are privately placed outside Asia or if the placement is specifically classified as “foreign.” We identify 23 securities of this type. Finally, the third variable is even more specific indicating private placements in the US. There are 8 such securities.

Table 5 reports the probit estimates using the full set of controls (columns 3 to 5). While the standard errors are similar in magnitude as the errors in our previous analyses, the coefficients on the private securities indicators are insignificant in all cases. Firms that are close to Soeharto are as likely as firms without political ties to have *private* foreign securities. The contrast between the findings for the US securities requiring 20-F filings (column 1) and US private placements (column 5) is particularly interesting as the comparison holds the foreign target market constant. Taken together, the results in this section indicate that it matters whether a security is publicly traded or private, suggesting transparency issues play a role for the documented tradeoff between political connections and foreign financing.

6. Returns to Foreign Securities Before and During the Asian Financial Crisis

An alternative approach to testing our hypothesis that political relationships and foreign securities are alternative means to increase firm value is to explicitly study the performance

consequences of the two strategies. This analysis also demonstrates how important it is for empirical studies to account for the potential endogeneity of listing decisions.

We analyze the stock returns of our sample firms one year prior to and during the financial crisis of 1997 and 1998. In a financial market equilibrium, it would be surprising if firms with foreign securities consistently outperformed firms with strong political relationships. In contrast, unexpected shocks such as the financial crisis in Asia are more likely to result in significant differences in performance. The Asian crisis, which many believe was in part due to weak corporate governance and low levels of transparency (Stiglitz, 1998; Harvey and Roper, 1999), may have created a premium for more transparent firms. Johnson et al. (2000), Mitton (2002) and Lemmon and Lins (2003) provide evidence to this effect.

However, as the results in the previous section suggest, global financing and corporate transparency are only half the story. In measuring the performance effects of foreign securities, it is important to take into account firms' political connections and consider how the regime responded to the economic turmoil. Suppose President Soeharto lost much of his ability to support politically well-connected firms during the crisis. In this case, return regressions that ignore political connections overestimate the value of foreign listings. In contrast, if Soeharto supported "his" firms during the crisis – as the Texmaco example suggests – the benefits of foreign securities during the crisis might be larger than previously estimated.

To investigate these issues, we estimate a series of models explaining the stock price performance of our sample firms prior to and during the Asian financial crisis. In particular, we compare models that treat the presence of foreign securities as exogenous with models that explicitly take into account that foreign securities are chosen depending on prior political investments. We investigate the year prior to the crisis (7/1/96-6/30/97) and the crisis itself

(6/30/97-8/31/98). The latter study period is chosen to make our results directly comparable to the analysis in Mitton (2002). We use annualized log returns r_i as our dependent variable so that we can compare the magnitude of the estimated coefficients across time periods. We control for firm size (measured as the log of total assets), financial leverage (ratio of long-term debt to total assets), and the historical volatility of the stock (standard deviation of weekly returns in 1996).

$$(3) \quad r_i = X_i \mathbf{b} + \mathbf{f} y_i^* + \mathbf{m}_s + \mathbf{e}_i.$$

The results in Mitton (2002) suggest that firms with foreign securities outperform other firms during the crisis, i.e., $\mathbf{f} > 0$. The performance effects of foreign financing are reported in Table 5. In a simple OLS regression, we find a positive and significant effect during the crisis (column 4), consistent with Mitton (2002). In contrast, firms with foreign securities did not outperform other firms in the year prior to the crisis (column 1), which is in line with our expectations for returns in a financial market equilibrium. To the extent that these estimates are biased, the bias is not the result of an omitted variable problem. Adding our measure of closeness to these regressions, political connections have no significant relation to stock returns and the coefficient on foreign securities changes little.

Next, we estimate treatment effects models. These models explicitly account for the substitutive relation between political connections and global financing, thereby isolating the marginal effect of foreign securities on performance. The first stage of these models is the corresponding probit model from Table 2. At the second stage, we estimate equation (3). For all models, we clearly reject independence of the two stages (Wald tests are reported at the bottom of the table). Thus, it is inappropriate to run simple performance regressions to measure the impact of foreign securities on stock returns.

The treatment effect results are presented in columns 2 and 5 of Table 5. The performance effects of foreign securities are considerably larger than in the simple OLS regressions.

Conceptually, the difference is an estimate of the benefits Soeharto provided to well-connected firms during the crisis. Controlling for political relationships, we now also find a positive performance effect of foreign securities for the year prior to the Asian crisis, which underscores that both political connections and foreign securities contribute to firm value even outside the crisis.

To address the concern that our results simply reflect long-run differences in performance across firms, a second set of models controls for firm profitability prior to the crisis (ROA) and firms' financing needs (capital intensity) (columns 3 and 6). These controls reduce the magnitude of the estimated performance effects only minimally.

From a managerial perspective, it is interesting to know if the benefits of having foreign securities increased during the Asian financial crisis. A casual glance at Table 5 at least suggests that the performance effects of foreign securities were larger during the crisis. To formally test this hypothesis, we pooled pre-crisis and crisis returns to form a panel. We control for the period by introducing a time indicator (Crisis) which equals 1 for returns during the crisis. An interaction term $\text{Foreign Securities} \times \text{Crisis}$ allows the performance effect of foreign securities to vary by period. Coefficient estimates for foreign securities, the crisis and the interaction term are reported at the bottom of columns 4, 5 and 6.¹³ Bootstrapped standard errors based on 1,000

¹³ These models also include all other covariates shown in the upper half of Table 5. The coefficient on the interaction in column 4 compares the estimated performance effects of foreign securities in row 1 of columns 1 and 4. Column 5 compares column 2 and 5, and column 6 tests for differences between columns 3 and 6. As this is panel data, we can also estimate these models using firm fixed effects. The resulting coefficient on the interaction remains virtually unchanged, indicating that time-invariant unobserved firm characteristics do not bias our estimates.

replications are given in parentheses. As is to be expected, returns are much lower during the crisis. While the coefficients on the interaction term are positive in all three models, no effect is statistically significant at conventional levels. At best, this is very weak evidence that the Asian crisis increased the benefits of having publicly traded foreign securities.

Overall, the estimates presented in Tables 5 suggest that President Soeharto lent considerable financial support to politically well-connected firms before and during the financial crisis. As a result, conventionally measured performance effects of cross listings or foreign securities are considerably downward biased if political relationships are ignored.

7. Conclusions

In this study, we examine the link between firms' political connections and their global financing decisions. Using Indonesia as an example, we show that well-connected firms are less likely to have publicly traded debt or equity securities abroad. Our results indicate that firms in Indonesia view connections and global financing as substitutes. Consistent with this interpretation, we also provide return-based evidence that firms derive significant benefits from *both* foreign securities and political connections before and during the Asian crisis.

Our findings shed light on the link between political connections and corporate transparency. This link is twofold: First, as this paper shows, well-connected firms are less likely to have

publicly traded foreign securities. A greater number of foreign securities, however, would make it easier for domestic and foreign investors to learn about Indonesian firms. Thus, by discouraging firms from issuing foreign securities, political ties indirectly lead to lower transparency. Poor corporate transparency is a *consequence* of the strength of political ties.

Second, transparency concerns also appear to be one of the *reasons* why well-connected firms are reluctant to access global capital markets. Our finding that firms with strong political ties are less likely to have publicly traded securities but equally likely to have private securities is consistent with this view.

Two broader conclusions emerge from our findings. First, the results shed light on the difficulties of institutional reform in emerging market economies like Indonesia. The financing choices of well-connected firms reveal a preference for low levels of transparency, presumably because public scrutiny is costly. Consequently, firms with good political connections can be expected to also resist changes in domestic institutions that would lead to greater transparency. The political economy of institutional reform in this environment promises to be particularly difficult because it is the firms with political clout that prefer secretive institutions.

A second conclusion relates to research on firms operating in relationship-based economic systems in general. A growing literature investigates the performance effects of adopting corporate strategies that are more consistent with the Anglo-Saxon model of market-based, arms-length finance. In many of these analyses, firms that pursue market-based strategies are compared to firms that do not. To make valid empirical inferences, however, it is important to recognize that these decisions are likely to be endogenously determined. In a relationship-based economy, firms with weak connections have the strongest incentives to rely on market-based transactions. Unless this is taken into account, the debate about the performance and valuation effects of greater corporate transparency and improved governance is likely to be misinformed.

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Table 1 – Summary Statistics

The table reports means and standard deviations (in parentheses) for a sample of 130 Indonesian firms. A subsample of 22 firms has publicly traded foreign equity securities as of June 1997 and foreign debt securities that mature in or after 1996. “Closeness to Soeharto” is the log stock return over five news events indicating that President Soeharto is in bad health, multiplied by -1 . “Closeness to Soeharto (resignation)” is the log stock return prior to and at Soeharto’s resignation (5/12/1998-5/21/1998), multiplied by -1 . Firm characteristics are measured at the end of the fiscal year 1996. “ROA” is the ratio of operating income to total assets. “Capital intensity” is the ratio of fixed assets to total assets. “Financial leverage” is the ratio of long-term debt to total assets. “Age” is the number of years since the firm’s incorporation. “President Director” indicates whether the head (CEO) of the managing board of directors is Chinese (=1). “Volatility” is the standard deviation of the weekly stock returns during 1996. “Pre-crisis returns” and “Crisis returns” are annualized log stock returns for the periods indicated in the table. “Days with bad news from Hong Kong (Singapore)” is the cumulative returns on the worst five trading days for the Hang Seng Index (Strait Times Index) between January 1995 and April 1997. “Days with large exchange rate fluctuations” is the sum of the absolute returns over the three days with the most positive and the three days with the most negative changes in the Rupiah-Dollar exchange rate. “Days with large positive exchange rate fluctuations” is the cumulative returns over the five days with the most positive changes in the Rupiah-Dollar exchange rate.

We denote statistically significant differences between the two subgroups as follows:

† significant at 10% * significant at 5% ** significant at 1% (using a nonparametric Wilcoxon test).

| | Full Sample (N=130) | Firms with Foreign Securities (N=22) | Firms w/o Foreign Securities (N=108) |
|--|------------------------|---|---|
| Closeness to Soeharto | 0.072 (0.107) | 0.058 (0.040) | 0.075 (0.116) |
| Closeness to Soeharto (resignation) | 0.109 (0.208) | 0.009 (0.125) | 0.129 (0.216)** |
| Total assets (millions of Rupiah) | 2390 (4990) | 6430 (8730) | 1570 (3320)** |
| ROA | 0.068 (0.069) | 0.070 (0.055) | 0.068 (0.072) |
| Capital intensity | 0.340 (0.237) | 0.422 (0.244) | 0.324 (0.233)† |
| Financial leverage | 0.190 (0.168) | 0.292 (0.145) | 0.169 (0.165)** |
| Age | 24.346 (13.806) | 26.182 (14.090) | 23.972 (13.784) |
| President Director is Chinese | 0.585 (0.495) | 0.591 (0.503) | 0.583 (0.495) |
| Volatility | 0.062 (0.026) | 0.060 (0.036) | 0.062 (0.024) |
| Pre-crisis log returns 7/1/96-6/30/97 | 0.267 (0.420) | 0.135 (0.346) | 0.294 (0.430) |
| Crisis log returns 7/1/97-8/31/98 | -1.353 (1.153) | -1.077 (0.849) | -1.410 (1.200) |
| <i>Cumulative returns on days</i> | | | |
| with bad news from Hong Kong | -0.034 (0.124) | -0.046 (0.057) | -0.031 (0.134) |
| with bad news from Singapore | -0.063 (0.100) | -0.086 (0.083) | -0.059 (0.103)† |
| with large exchange rate fluctuations | 0.138 (0.112) | 0.172 (0.125) | 0.131 (0.109) |

| | | | |
|---|-------------------|-------------------|-------------------|
| with large positive exchange rate fluctuations | -0.011 (0.075) | -0.002 (0.066) | -0.013 (0.076) |
| <i>Industry classification</i> | | | |
| Agriculture | 0.038 (0.193) | 0.045 (0.213) | 0.037 (0.190) |
| Mining | 0.015 (0.124) | 0 (0.135) | 0.019 (0.135) |
| Manufacturing | 0.508 (0.502) | 0.545 (0.510) | 0.500 (0.502) |
| Transport | 0.062 (0.241) | 0.091 (0.294) | 0.056 (0.230) |
| Trade | 0.092 (0.291) | 0.091 (0.294) | 0.093 (0.291) |
| Finance | 0.238 (0.428) | 0.227 (0.429) | 0.241 (0.430) |
| Services | 0.046 (0.211) | 0 (0.230) | 0.056 (0.230) |

Table 2 – Foreign Securities and Political Connections

The table reports probit estimates of the likelihood that the 130 Indonesian firms in our sample have publicly traded foreign securities. The dependent variable takes on a value of one if the firm has foreign securities and zero otherwise. “Closeness to Soeharto” is the log stock return over five news events indicating that President Soeharto is in bad health, multiplied by -1 . “Closeness to Soeharto (resignation)” is the stock return prior to and including Soeharto’s resignation (5/12/1998-5/21/1998), multiplied by -1 . Firm characteristics are measured at the end of the fiscal year 1996. “Firm size” is the log of total assets in million Rupiah. “ROA” is the ratio of operating income to total assets. “Capital intensity” is the ratio of fixed assets to total assets. “Financial leverage” is the ratio of long-term debt to total assets. “Industry” indicators are included for agriculture, manufacturing, transport, trade, and finance. Standard errors (in parentheses) are clustered based on group affiliations reported by Fisman (2001) and Claessens et al. (2000). Models 4 and 5 drop firms that are affiliates or subsidiaries of foreign firms. We denote (two-sided) levels of statistical significance as follows: † significant at 10% * significant at 5% ** significant at 1%

At the bottom of the table, we report two types of tests: an F -test for the hypothesis that the coefficient on the first-stage instrument is zero ($H_0: \hat{b}_1(\text{Instrument}) = 0$), and a Smith-Blundell (1986) test with the null hypothesis that our closeness measures are exogenous.

| | (1) | (2) | (3) | (4) | (5) |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Closeness to Soeharto | -4.018 (1.654)* | -4.021 (1.640)* | -4.618 (1.752)** | -5.042 (1.742)** | |
| Closeness to Soeharto (resignation returns) | | | | | -1.920 (0.938)* |
| Firm size | 0.852 (0.163)** | 0.837 (0.177)** | 0.806 (0.189)** | 0.793 (0.190)** | 0.635 (0.154)** |
| ROA | | 0.615 (2.750) | 1.287 (3.077) | 2.648 (3.793) | 0.411 (3.785) |
| Capital intensity | | 0.959 (1.031) | 0.435 (0.925) | 0.640 (0.923) | 1.034 (0.915) |
| Financial leverage | | | 1.777 (0.941)† | 1.364 (0.911) | 0.992 (0.923) |
| Industry indicators | included | included | included | included | included |
| Constant | -18.986 (3.425)** | -19.063 (3.821)** | -18.749 (4.152)** | -18.250 (4.146)** | -15.060 (3.471)** |
| Observations | 130 | 130 | 130 | 119 | 119 |
| Pseudo R^2 | 0.38 | 0.39 | 0.41 | 0.41 | 0.40 |
| $H_0: \hat{b}_1(\text{age}) = 0$ (Prob>F) (Smith-Blundell test (Prob > χ^2)) | 0.009 (0.500) | 0.003 (0.643) | 0.015 (0.868) | 0.120 (0.862) | 0.095 (0.965) |
| $H_0: \hat{b}_1(\text{Chinese}) = 0$ (Prob>F) (Smith-Blundell test (Prob > χ^2)) | 0.037 (0.455) | 0.048 (0.415) | 0.018 (0.502) | 0.011 (0.706) | 0.107 (0.518) |
| $H_0: \hat{b}_1(\text{Chinese} + \text{age}) = 0$ (Smith-Blundell test (Prob > χ^2)) | 0.015 (0.927) | 0.021 (0.848) | 0.010 (0.691) | 0.010 (0.688) | 0.125 (0.640) |

Table 3 – Foreign Securities and Political Connections – Robustness Tests

The table reports probit estimates of the likelihood that the 130 Indonesian firms in our sample have publicly traded foreign securities. The dependent variable takes on a value of one if the firm has foreign securities and zero otherwise. “Volatility” is computed as the standard deviation of weekly returns in 1996. The “susceptibility to bad news” is based on returns measured on extreme days with negative market news that are unrelated to the Soeharto regime. For each sample firm, we compute the cumulative return on the worst five non-adjacent trading days for the Hang Seng Index (Hong Kong) and, separately, for the Strait Times Index (Singapore) between January 1995 and April 1997. Column 2 (3) reports the results using returns on the Hong Kong (Singapore) events. “Exposure” is based on currency shocks, i.e., extreme changes in the Rupiah-Dollar exchange rate by more than one percent. In column 4, we use the sum of the absolute returns over the three worst and three best days of the exchange rate. In column 5, we compute cumulative returns over the five worst days, i.e., days when the Rupiah fell against the Dollar. The exchange rate is evaluated over the time period during which the Soeharto’s health events occurred.

The other control variables are as defined before. See Table 2 for details. We denote (two-sided) levels of statistical significance as follows: † significant at 10% * significant at 5% ** significant at 1%.

| | (1) | (2) | (3) | (4) | (5) |
|----------------------------|----------------------|---------------------|----------------------|----------------------|----------------------|
| | (Volatility) | (HK returns) | (SG returns) | (Δ Rupiah) | ($-\Delta$ Rupiah) |
| Closeness to Soeharto | -4.371 (1.624)** | -4.866 (1.806)** | -5.186 (1.842)** | -5.822 (1.895)** | -5.623 (2.219)** |
| Volatility | 6.269 (4.751) | | | | |
| Susceptibility to bad news | | -0.810 (1.541) | -2.756 (1.839) | | |
| Exposure | | | | 3.390 (1.751)* | 6.114 (2.490)* |
| Firm size | 0.826 (0.183)** | 0.801 (0.189)** | 0.777 (0.191)** | 0.882 (0.202)** | 0.957 (0.212)** |
| ROA | 1.623 (2.980) | 1.351 (2.992) | 1.723 (2.990) | 1.940 (3.102) | 2.016 (3.214) |
| Capital intensity | 0.376 (0.915) | 0.466 (0.932) | 0.543 (0.963) | -0.011 (0.929) | 0.165 (0.970) |
| Financial leverage | 1.692 (0.919)† | 1.747 (0.951)† | 1.892 (1.023)† | 1.557 (0.946)† | 2.066 (1.004)* |
| Industry | included | included | included | included | included |
| Constant | -19.474 (4.031)** | -18.664 (4.136) | -18.332 (4.182)** | -20.724 (4.393)** | -21.797 (4.575)** |
| Observations | 130 | 130 | 128 | 130 | 130 |
| Pseudo R^2 | 0.41 | 0.41 | 0.41 | 0.44 | 0.45 |

Table 4 – US Securities with 20-F Filing, Private Foreign Securities and Political Connections

The table reports probit estimates of the likelihood that the 130 Indonesian firms in our sample have a certain type of foreign security. In the first column, the dependent variable takes on a value of one if the firm has securities that are publicly traded in the US and require a 20-F filing with the SEC, and 0 otherwise. In model (2), firms with publicly traded securities that do not require a 20-F filing are analyzed. In column 3, the binary dependent variable indicates with a value of one that the firm has private securities (e.g., loans or private equity placements) that were arranged by at least one foreign investment bank as a lead manager. In column 4, the dependent variable is based on information about the security's (target) market place indicated in the SDC database. If the security is privately placed outside of Asia or specifically classified as "foreign private placement", we set the binary variable equal to one. In the fifth column, the dependent variable takes on a value of one if the firm has private placements in the US. All private securities are classified based on information in the SDC database.

The control variables are as defined before. See Table 2 for details. We denote (two-sided) levels of statistical significance as follows: † significant at 10% * significant at 5% ** significant at 1%.

| | (1) | (2) | (3) | (4) | (5) |
|-----------------------|--|-----------------------------------|--|--|---|
| | Public US Securities (20-F Filing) | Foreign Securities w/o 20-F | Private Securities (Foreign Bank) | Private Securities (Foreign Market) | Private US Securities (144a Placement) |
| Closeness to Soeharto | -6.791 (2.734)* | -3.713 (1.797)* | 0.259 (1.345) | 0.578 (1.779) | 1.341 (1.213) |
| Firm size | 0.590 (0.168)** | 0.699 (0.197)** | 0.442 (0.104)** | 0.691 (0.110)** | 0.336 (0.097)** |
| ROA | 2.070 (4.203) | 1.356 (3.216) | -0.327 (1.900) | -0.785 (3.101) | 2.765 (2.957) |
| Capital intensity | 3.251 (1.036)** | -0.092 (1.047) | -0.855 (0.661) | -0.212 (0.595) | 0.147 (0.526) |
| Financial leverage | 2.439 (1.393)† | 1.581 (0.933)† | 1.610 (0.856)† | -0.125 (0.954) | 1.047 (0.837) |
| Industry | included | included | included | included | included |
| Constant | -16.213 (4.128)** | -16.448 (4.275)** | -8.726 (2.179)** | -15.524 (2.279)** | -9.340 (2.000)** |
| Observations | 130 | 122 | 130 | 130 | 130 |
| Pseudo R^2 | 0.47 | 0.33 | 0.23 | 0.34 | 0.15 |

Table 5 – Returns to Foreign Securities

The table reports regression results with annualized log returns for 130 Indonesian firms as the dependent variable. “Foreign Securities” is an indicator, which is equal to 1 if a firm has publicly traded foreign securities and 0 otherwise. Firm characteristics are measured at the end of the fiscal year 1996. “Firm size” is computed as the log of total assets. “Financial leverage” is the ratio of long-term debt to total assets. “Volatility” is the standard deviation of the weekly stock returns during 1996. “ROA” is the ratio of operating income to total assets. “Capital intensity” is the ratio of fixed assets to total assets. “Industry” indicators are included for agriculture, mining, manufacturing, transport, trade, finance and services. Standard errors (in parentheses) are clustered based on group affiliations reported by Fisman (2001) and Claessens et al. (2000).

In the two-stage treatment effects models, the first stage are the probit models reported in Table 2. We report the result of a Wald test for the null hypothesis that the first-stage and the second-stage equations are independent ($\rho=0$). We also test if the effect of foreign securities on returns is different before and during the crisis ($\phi_{pre-crisis}=\phi_{crisis}$). The standard errors for the pooled models reported at the bottom of the table are bootstrapped using 1,000 replications.

We denote (two-sided) levels of statistical significance as follows:

† significant at 10% * significant at 5% ** significant at 1%

| | 7/1/96-6/30/97 | | | 7/1/97-8/31/98 | | |
|---|-------------------|------------------------------------|----------------------|--------------------|---------------------------------------|----------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| | OLS | Pre-crisis 2-stage estimates | 2-stage estimates | OLS | Mitton (2002) 2-stage estimates | 2-stage estimates |
| Foreign Securities | -0.029 (0.100) | 0.452 (0.202)* | 0.440 (0.205)* | 0.682 (0.271)* | 2.350 (0.470)** | 2.211 (0.203)** |
| Firm size | -0.034 (0.028) | -0.104 (0.037)** | -0.094 (0.037)** | -0.079 (0.104) | -0.342 (0.122)** | -0.290 (0.103)** |
| Financial leverage | -0.291 (0.284) | -0.271 (0.263) | -0.354 (0.291) | -1.293 (0.659)† | -0.697 (0.808) | -1.720 (0.691)* |
| Volatility | 2.473 (1.479)† | 1.711 (1.586) | 1.607 (1.585) | 1.446 (3.430) | 0.559 (2.446) | 0.943 (1.968) |
| ROA | | | -0.517 (0.448) | 2.029 (2.190) | | 2.295 (1.410)† |
| Capital Intensity | | | -0.197 (0.169) | | | 0.820 (0.501)† |
| Industry | included | included | included | included | included | included |
| Constant | 0.608 (0.593) | 2.095 (0.778)** | 2.008 (0.773)** | | 4.382 (2.290)† | 3.112 (2.066) |
| Observations | 130 | 130 | 130 | 130 | 130 | 130 |
| R-squared | 0.21 | | | 0.22 | | |
| $H_0: \rho=0$ (Prob > χ^2) | | 0.0059 | 0.0060 | | 0.0085 | 0.0000 |
| $H_0: \phi_{pre-crisis} = \phi_{crisis}$ Foreign Sec. × Crisis | | | | 0.507 (0.336) | 0.415 (0.269) | 0.420 (0.279) |
| Foreign Securities | | | | 0.119 (0.154) | .971 (0.420) | 0.942 (0.427) |
| Crisis | | | | -1.706 (0.135) | -1.691 (0.114) | -1.691 (0.118) |

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