Journal of International Business Studies (2017) 48, 308–323

www.jibs.net

Filling institutional voids in emerging economies: The impact of capital market development and business groups on M&A deal abandonment

Hyejun Kim[1] and Jaeyong Song[2]

[1] *Sloan School of Management, Massachusetts Institute of Technology, 100 Main Street E62-463, Cambridge, MA 02142, USA;* [2] *College of Business Administration, Seoul National University, Seoul, Korea*

Correspondence:
H Kim, Sloan School of Management, Massachusetts Institute of Technology, 100 Main Street E62-463, Cambridge, MA 02142, USA.
Tel: 1-857-208-0307;
e-mail: hyejun@mit.edu

Abstract
Business groups may fill institutional voids in emerging economies, but empirical research is lacking as to when and how institutional voids affect economic behavior of individual firms. We examine the effect of institutional voids in capital markets on individual transactions in emerging economies, focusing on M&A deals that were abandoned after being publicly announced. M&A deals may fall through when unexpected information is brought to light or financing difficulties arise. At the country level, capital market development can lower the probability of M&A deal abandonment by facilitating the flow of information and capital. At the firm level, when acquirers are affiliated with business groups, development of internal capital markets can also lower this probability, facilitating completion of the transaction and the flow of information. This effect of business groups, however, decreases as the external capital market, the institution replaced by their internal markets, develops and its benefits become widely available to non-business groups. The results of our empirical analyses on M&A transactions in nine emerging economies over 21 years support our arguments.
Journal of International Business Studies (2017) **48**, 308–323.
doi:10.1057/s41267-016-0025-0

Keywords: institutional environment; emerging markets/countries/economies; business groups; institutional voids

INTRODUCTION

Mergers and acquisitions are important means by which firms achieve critical mass and obtain complementary resources (e.g., Capron, Dussauge, & Mitchell, 1998). While M&As are prevalent in developed countries, they have increased significantly in recent years across emerging economies. Fast-growing companies in emerging economies have employed M&As aggressively as part of their international expansion and growth strategies (e.g., Neary, 2007; Kumar, 2009) as they recognize that M&As can provide great opportunities for firms to turn around and expand. However, this strategy also requires heavy investment at every step of the acquisition process. Firms allocate significant resources to

Received: 20 October 2014
Revised: 23 May 2016
Accepted: 6 June 2016
Online publication date: 13 September 2016

preparation and execution of M&A deals (Weston, Mitchell, & Mulherin, 2004), but many M&As still fail every year even before the announced deal is closed.[1] Such failures in deal closing not only influence the economy, as they often involve prominent business entities, but also deserve our special attention because these deals are abandoned after a public announcement that usually creates organizational, regulatory, and managerial inertia driving their completion.

One of the main factors suggested to affect completion of M&A deals is the institutional environment of a given economy (e.g., Dikova, Sahib, & van Witteloostuijn, 2010). Institutions serve to reduce uncertainty in transactions by forming and enforcing rules and restrictions (North, 1990). Economies develop institutions in order to improve the environments in which business actors complete transactions, thus discouraging costly deal failures. For instance, overall M&A deal abandonment rates decreased sharply in the late 1980s and early 1990s in the United Kingdom and the United States, both of which have well-developed relevant institutions. However, institutional environments that can facilitate economic activity and reduce uncertainty may be underdeveloped in countries with emerging economies (Akerlof, 1970). As a result, institutional voids are common in emerging economies (Khanna & Palepu, 2010), as are higher abandonment rates and lower completion rates, compared to countries such as the United Kingdom or the United States (Table 1). However, the factors affecting the high M&A abandonment rates in emerging economies have been largely unexplored (Sun, Peng, Ren, and Yan, 2012).

Table 1 M&A deal abandonment and completion ratio (2000–2014)

Acquiring nation	Deal abandonment rate (%)	Deal completion rate (%)
United States	2.8	81.7
United Kingdom	1.9	87.2
Nine emerging economies (sampled)	4.1	68.5
China	7.8	44.9

Note: The nine emerging economies include Mexico, Brazil, Argentina, Chile, South Korea, India, Turkey, Israel, and South Africa. The first column indicates the ratio of the number of abandoned deals to the number of deals either abandoned or completed during the last 15 years (2000–2014). Deals of unspecified status are omitted. The second column indicates the ratio of the number of completed deals to the total number of deals announced, including delayed and unspecified deals.
Data source: SDC Platinum M&A Database.

M&A deal abandonment can be largely attributed to two factors. First, release of new information after the initial agreement often requires renegotiation of the initial contract, which may leave both parties dissatisfied (Davidson, Rosenstein, & Sundaram, 2002). For this type of deal abandonment, information asymmetry between the acquirer and the target firm is the main culprit. If an acquirer could gain access to accurate information in sufficient quantity prior to the initial agreement, the risk of deal abandonment would decrease significantly. Second, failure of the acquiring company to finance the transaction can make the acquirer drop the deal. Acquiring a company is likely to be a huge investment for the acquirer, and lack of either the capability or the legitimacy to finance the deal will result in M&A deal abandonment. In light of this, we would expect that institutional development that reduces information asymmetry and facilitates the flow of financial resources will lower the risk of M&A deals being abandoned.

In this study, we observe the effects of two types of institutions that directly influence abandonment of M&A deals: external and internal capital markets. An institutional void in an external capital market (such as the stock market) not only constrains the flow of financial resources, but also increases information asymmetry within the economy (Akerlof, 1970; Levine, 1997). Khanna and Palepu (2010) further illustrate the role of institutional development of the capital market in producing more accurate information, aggregating and distributing information and capital, and facilitating transactions. In particular, development in the capital market nurtures the information environment, facilitating the work of market analysts and advisers, both of whom contribute to the reduction of information asymmetry in the economy. Advances in the auditing profession and related institutions also reduce information asymmetry, enhancing credibility (Khanna & Palepu, 2010). With respect to liquidity, capital markets with well-developed institutions can aggregate and distribute financial resources more efficiently and effectively. Therefore capital market development will decrease the risk of M&A abandonment by providing better access to information and capital.

Alternatively, particularly in emerging economies, business groups can establish internal capital markets to fill the institutional voids in external capital markets. Leff's (1978) canonical theory argues that the development of business groups in less developed countries is a response to the

problems inherent in underdeveloped capital markets. Therefore the business group affiliations of an acquirer may mitigate the probability of deal abandonment, with the business group playing the role ordinarily played by external economic institutions. The benefits of capital market development for such business group-affiliated firms will be fewer, as their internal markets substitute for external markets.

To examine the completion and abandonment of publicly announced M&A deals in the context of emerging economies, we use detailed data of completion of and withdrawal from publicly announced M&A deals from 1988 to 2008 in nine countries that were classified as emerging economies, at least at the beginning of this observation period. We find that capital market development does in fact lower the probability of M&A deal abandonment in these emerging economies. We also find that for acquiring firms affiliated with major business groups, the probability of deal abandonment is significantly lower than for those not affiliated with business groups. Furthermore, we find that the effect of capital market development on the probability of deal abandonment is significant only for firms that are not affiliated with business groups and that the advantage of business group affiliation decreases as the capital market develops. A series of robustness checks demonstrate that our results are robust to a wide array of controls.

This study makes the following contributions to the literature. First, we empirically show that institutional voids in emerging economies affect major firm behaviors such as completion or abandonment of M&A deals. Second, we empirically examine the differences in the effects of institutional voids on business groups versus individual firms. Our longitudinal evidence across diverse emerging economies supports existing theories on the effects of the development of internal markets within business groups. Third, the study contributes to the literature on M&A, providing empirical evidence of both external and internal market effects on costly deal abandonment.

THEORY AND HYPOTHESES

Institutional Voids in Emerging Economies

According to new institutional economics, the role of an institution is to reduce uncertainty in transactions by forming and enforcing rules and restrictions (North, 1990). For example, formal institutions such as legal and regulatory systems lower transaction costs by offering stable institutional environments in which transactions take place (Choi, Lee, & Kim, 1999; North, 1990). In emerging economies where institutions are underdeveloped, higher transaction costs are incurred due to higher enforcement and measurement costs (North, 1990) and, more generally, by greater amounts of information asymmetry (Akerlof, 1970). Khanna and Palepu also noted that "well-functioning markets tend to have relatively low transaction costs and high liquidity, as well as greater degrees of transparency and shorter time periods to complete transactions" (Khanna and Palepu, 2010: 17).

The capital market has been the focus of attention in studies of institutional development in emerging economies due to its importance for economic development. Hicks (1969) earlier attributed industrialization in England to the development of the capital market, and Schumpeter (1912) also stressed the role of the capital market in identifying and funding entrepreneurs with the best chances of innovation. Levine (1997) later demonstrated that the development of capital institutions lowers transaction and information costs in the economy, as more developed institutions provide certainty in business transactions and reduce information asymmetry. The costs of acquiring information and engaging in business transactions are commensurate with development of capital markets and institutions in the economy, and further development of the capital market ultimately results in optimal allocation of information and financial resources (Arrow, 1974; Debreu, 1959; Levine, 1997). When institutional voids are present in capital markets, however, uncertainty is greater because access to resources such as information and capital may be limited.

Institutional voids in emerging economies have been researched in relation to various aspects of firm behavior other than M&A. In their research on diversification, Khanna and Palepu (2000a) explained that extensive diversification can be profitable in emerging economies, where firms face high transaction costs. The liability of foreignness, an important concept in international business, is also related to institutional voids. Foreign firms that enter emerging economies often use strategic alliances with local firms to overcome the disadvantages resulting from institutional voids (Hitt, Dacin, Levitas, Arregle, & Borza, 2000; Peng, Wang, & Jiang, 2008). On the other hand, local firms in emerging economies can also use cross-border

alliances or cross-listings in developed economies in order to overcome institutional voids (Siegel, 2009).

Although they have seldom been discussed in the academic literature, M&As are important firm behaviors that are strongly influenced by institutional voids. M&As tend to be large, long-term investments made under conditions of great uncertainty. Because of this uncertainty, transaction costs are high; the institutional development of capital markets plays a significant role in reducing those costs. In this study, we view each M&A deal as an observable transaction and investigate its completion or abandonment in relation to institutional voids in capital markets.

Closing Risk of Announced M&A Deals in Emerging Economies

An M&A process consists of two stages (Boone & Mulherin, 2007). At the first stage, which is called the private takeover process, potential acquirers investigate the target firm within the limits of their private access to the available information. Potential acquirers often hire legal and financial advisors to assess target firms; this process is called pre-due diligence. If the acquirers decide to bid for the target firm in this private takeover process, they make bids based on their own assessments. After the bidding, the target firm chooses a preferred bidder who is considered to be the best acquirer to meet the needs of the target. Then the acquiring firm makes a public announcement about the offer made by the acquirer, and a bilateral agreement is reached regarding the deal.

The second stage, the public takeover process, takes place after the public announcement. An acquirer can conduct a thorough due diligence review of the target firm at this stage. Based on the information from this review, the acquirer then negotiates, settles, and pays the final price. The entire public takeover process spans the period from the announcement to payment, which may take several months (Dikova et al., 2010). During the process, new information regarding the target may be continuously released, and the acquirer may try to modify the price based on this information (Hotchkiss, Qian, & Song, 2005).

When the two parties cannot agree on the price for the deal, or when an acquirer fails to pay the negotiated price by the due date, the acquirer abandons the deal. The risk of abandoning the deal before the closing is called the "closing risk" by practitioners (Sherman, 2005). Two major factors influence the closing risk. Information asymmetry is the first factor. Regarding the value of a target firm, severe information asymmetry exists between the acquiring firm and the target firm. Access to information about the target firm is strictly limited; thus, not all details about the contract or potential legal problems can be thoroughly examined during the pre-due diligence process. Any unexpected information released after the private takeover process can change or endanger the initial deal and the success or failure of the deal is often determined by such unexpected information (e.g., Mitchell & Pulvino, 2001). To avoid the risk associated with the release of unexpected information, acquirers may include certain conditions in the merger agreement. The contingent contract, which is flexible to various unexpected situations, is one way acquirers may try to overcome information asymmetry (Arrow, 1974). However, when totally unexpected information beyond the scope of the contract is released, the acquirer may choose to abandon the deal.

In emerging economies where institutions are underdeveloped, information asymmetry can be more problematic. The cost of information is high when institutional voids exist (Khanna & Palepu, 2000a, b), and the higher cost may limit the pre-due diligence process. On the one hand, lack of institutions or experts necessary for careful pre-due diligence may cause the initial bid to be based on insufficient information. During the long history of M&A markets in developed countries, sophisticated legal and financial systems have developed for assessing deals more accurately. By contrast, burgeoning M&A markets in emerging economies often lack experienced specialists who can execute proper pre-due diligence. On the other hand, the corporate disclosure system may be underdeveloped, and institutional intermediaries for diversifying the high fixed cost of information may be lacking (Khanna & Palepu, 2010). Therefore information asymmetry tends to be more conspicuous in emerging economies than in developed countries.

The second factor influencing the closing risk is financing difficulty. When an acquirer fails to obtain the financial resources required for the deal, the deal cannot be closed. M&A experts often agree that most deals are abandoned because the acquirer lacks either the ability or the legitimacy to finance the deal (Tokic & Beyea, 2009; Westlaw Business, 2009). Particularly during times of economic recession, when liquidity is critical, financing becomes a more serious difficulty that can break a deal.

In emerging economies with underdeveloped institutions, financing difficulty often increases the closing risk. Transactional uncertainty increases liquidity risk, and institutions for mitigating the risk may be immature in emerging economies (Khanna & Palepu, 2000a; Levine, 1997). Studies in development economics have shown an association between developed capital markets and risk-diversifying systems, which induce investors to finance large projects with long-term pay-offs (e.g., Levine & Zervos, 1996). In emerging economies, where investors cannot fully diversify their portfolios, firms interested in large investments such as M&As may have very limited sources of financing. Also, emerging economies tend to have underdeveloped transaction-related laws and insurance systems, which puts the burden on the acquirer to finance the deal, thereby increasing the closing risk associated with financing issues.

Capital Market Development and Closing Risk of Announced M&A Deals

Capital market development can affect the closing risk of announced M&A deals in two ways. First, in terms of information asymmetry, capital market development reduces information costs related to pre-due diligence, thereby lowering the risk of unexpected information being released. As an acquirer gains access to more accurate and richer information during pre-due diligence, prediction of possible problems regarding the deal becomes more likely. Second, capital market development alleviates financing difficulties by providing liquidity for long-term investment. Liquidity in the capital market can reduce the possibility of M&A deal abandonment due to insolvency. We further elaborate on both aspects, as follows.

First, information asymmetry in emerging economies diminishes as the capital market develops. In particular, a developed capital market nurtures information analysts and advisers (Khanna & Palepu, 2010). Corporate control in the developed stock market requires easier public access to corporate information, and as a result, the market develops various information intermediaries (Boyd & Prescott, 1986). These information intermediaries, such as financial analysts, industry experts, credit rating agencies, and the financial press, increase both the quality and quantity of publicly available information about firms. In addition, a developed capital market is more efficient in terms of aggregating and distributing information (Khanna & Palepu, 2010). When a fixed cost for information is assigned to an individual acquirer, collection of information for target assessment before the completion of 1:1 due diligence can be very arduous. In a developed capital market, however, institutions that specialize in dealing with company information distribute the fixed cost across various entities through their expertise and economies of scale, thus facilitating the flow of information (Diamond, 1984). Finally, a developed capital market enhances credibility of information (Khanna & Palepu, 2010). A corporate disclosure system forces a listed company to announce important information for the benefit of investors, and third-party certification of the company's information, such as that by auditors, adds credibility to the information about the firm.

The role of capital market development in lowering information asymmetry has been remarked upon earlier. As Akerlof (1970) conjectures in his seminal paper, institutionally underdeveloped economies may suffer from greater information asymmetry. He also argues that intermediaries with good reputations make information flow more efficiently, and the capital market itself can be an effective intermediary. A number of empirical studies also support that capital market development increases the transparency of corporate information (Bushman, Piotroski, & Smith, 2004; Frost, Gordon, & Hayes, 2006; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998).

Second, capital market development reduces financing difficulties in emerging economies (Khanna & Palepu, 2010). Stock market development can facilitate completion of M&A transactions that generally involve large, long-term investments and often require external capital sourcing (Roy, 2004). Investments that rely on external financing grow disproportionately faster in countries with well-developed capital markets than in countries with underdeveloped financial systems (Levine, 1997). That is, capital market development augments liquidity for long-term investments, developing platforms for exchange of financial resources (Khanna & Palepu, 2010). In addition, a developed capital market efficiently aggregates and distributes financial resources (Khanna & Palepu, 2010). For example, capital markets often develop various vehicles for M&A financing, such as private equities and leveraged buyouts. Such vehicles not only improve the liquidity of the capital market, but also diversify the available financing sources for M&A deals. That is, capital market development mitigates the risk for both capital suppliers and

acquirers, thereby encouraging financing and ensuring the closure of the deal.

To sum up, capital market development alleviates the costs of both information and capital, the two major factors influencing M&A abandonment. Therefore we posit that capital market development will mitigate the closing risk of M&A deals, hypothesizing as follows:

Hypothesis 1: In emerging economies, capital market development will lower the probability of M&A deal abandonment.

Business Group Affiliations and Closing Risk of Announced M&A Deals

Various researchers have described the prominent economic role of business groups in emerging economies. According to the internal market theory by Leff (1978), the business group substitutes for an incomplete market for capital. This is why business groups are prevalent in emerging economies with institutional voids (Khanna & Rivkin, 2001; Khanna & Yafeh, 2007).

The internal market theory of business groups can be applied to M&A transactions in emerging economies. In terms of information, business groups can act as market intermediaries that reduce information asymmetry. If acquirers can access more accurate information about the target more efficiently using a business group network, fewer deals will be abandoned due to the release of unexpected information. On the other hand, in terms of financing difficulty, acquirer's internal capital markets, which are made up of business groups, can offset the negative effects of an imperfect external capital market in countries with emerging economies, thereby lowering the possibility of deal abandonment. We further elaborate on both points below.

First, business groups in emerging countries have access to more accurate and detailed information due to their social status and legitimacy in the economy. Goto (1982) discusses the sharing of exclusive information about technology and new investment opportunities in Japanese business groups in the postwar period as a representative example of the creation of an internal market for information. Research about Korean business groups, *Chaebols*, has also illustrated their superiority to independent firms in terms of sharing of information regarding government policies and investment opportunities (Cho, 1990; Song, 2002). Business groups take advantage of their prominent roles in national economies and their relationships with other firms, organizations, and government agencies (Keister, 2001). As a result, they have clear advantages in sourcing information within local markets. In addition to their legitimacy in the market, business groups are more efficient than individual firms in handling and distributing sourced information within their networks. The transaction cost is lower for these networks than for arm's length networks in the economy. Through these networks, business groups fill the institutional voids in emerging economies in terms of providing information (Choi et al., 1999; Khanna & Rivkin, 2006).

Second, business groups have well-developed financing abilities compared to other firms in emerging economies. High transaction costs, which may intensify liquidity risks, create incentives for the emergence of internal capital markets in business groups. Leff (1978) stated that large business groups can source capital either from their immediate members or from external resources they can mobilize, such as other financial intermediaries. Business groups function as "insider lenders", substituting for a formal financial system and allowing affiliated firms access to otherwise scarce capital when markets are inadequate at allocating funds (Keister, 1998).

Several empirical studies support the internal capital market theory of business groups. Chang and Hong (2000) found empirical evidence for the existence of internal financial markets in Korean business groups where affiliated firms can cross-subsidize through debt guarantees, equity investment, and internal trade. Gerlach (1992) also showed that Japanese business groups, *Keiretsu*, generally include bank-related subsidiaries, thereby providing their members with reliable sources of loan capital. In a study of six major Japanese business groups with financial ties among affiliated firms and their main banks, Hoshi, Kashyap, and Scharfstein (1991) suggested that liquidity is much less important in investments for affiliated firms of business groups than for independent firms. Focusing on Chinese business groups, Keister (1998) empirically found that both profits and productivity are greater for business groups with financial firms, *caiwu gongsi*, which generate access to additional funding, than for independent Chinese firms.

Easier access to financing vehicles lowers the risk associated with financial adversity. Comparing business groups that were bailed out from financial

difficulty and those which went bankrupt or reorganized, Suzuki and Wright (1985) also found that its main bank relationship is a highly significant factor affecting the probability of a company's bankruptcy. Considering that financing difficulties in M&A deals are largely caused by internal or external financial adversity, the greater likelihood for business groups to be bailed out from financial adversity may be associated with relatively lower closing risk for acquirers with business group affiliations.

Therefore business group-affiliated firms have advantages over the non-business group-affiliated firms in terms of sourcing information and capital in emerging economies. Since information asymmetry and financing difficulty are major reasons for deal abandonment, acquirers with business group affiliations will therefore enjoy lower closing risk. We thus hypothesize as follows:

Hypothesis 2: In emerging economies, acquirers' business group affiliations will lower the probability of M&A deal abandonment.

Because business groups act as alternative institutions to external markets (Leff, 1978), the effect of external market development will be more salient for independent firms than firms affiliated with business groups. For example, the research of Makhija (2004) on Czech Republic shows the substitute relationship between internal and external capital markets. She showed that restructuring is more detrimental to firms that rely less on the external capital market, as they are more vulnerable to the loss of internal markets.

In a similar vein, early research on the scope and performance of business groups implies that the advantages of business groups disappear when external markets develop. For example, the fall of diversified firms and rise of focused firms in the United States have been attributed to the development of the external market, where the latter can buy the necessary resources instead of making costly investments within the firm (see the review of Hoskisson and Hitt (1990) on this issue). As external markets develop, they replace the internal markets of business groups, and the role of business groups becomes less essential.

For non-business group firms, capital market development not only increases the amount of public information available to them, but also improves their access to diverse financial vehicles and sources. Accordingly, capital market development can decrease the closing risk for non-business group firms. However, affiliated firms already enjoy similar benefits to those offered by an advanced capital market, exploiting opportunities in their internal capital markets and receiving credible information from their extensive networks in local economies. Thus the additional benefits of capital market development in emerging economies may be smaller for business group-affiliated firms. Hence we hypothesize:

Hypothesis 3: In emerging economies, the effect of capital market development on M&A deal abandonment will be greater for non-business group-affiliated acquirers than for business group-affiliated acquirers.

METHODS

Data

This study was conducted using M&A transaction data from the SDC Platinum Database provided by Thomson Financial. The SDC Database has been widely used in M&A and alliance research (Kim & Song, 2007) because it tracks deals from most countries in the world. Our sample consists of deals made in nine emerging economies: India, Chile, Argentina, Brazil, Mexico, Israel, South Africa, Turkey, and South Korea.[2] These nine countries are all frequently selected by researchers who study business groups in emerging economies (Guillen, 2000; Khanna & Rivkin, 2001; Khanna & Yafeh, 2007). Not only is the prevalence of business groups in the economy important to consider in the selection of countries to include in the analysis, but so also is the availability of local data about the business groups. The nine countries are well distributed across different continents: Asia, Latin America, and Europe. Since our research involves both cross- and within-country analysis, indicator variables for each country are included in every analysis. Thus our results are not sensitive to the inclusion or exclusion of any particular country.

The sample consists of 5,887 domestic deals announced between 1988 and 2008. A 21-year observation period is long enough to observe different stages of institutional development, and substantial variations in economic development are evident in the countries in our sample. Therefore market evolution within countries over time is an interesting feature of our research. We excluded cross-border deals and focused on domestic deals to rule out the possible effects of institutional

differences between host countries. We also excluded deals made with a foreign ultimate parent company to eliminate the influence of financing from economies other than the home country. For example, a deal involving Samsung Indonesia was excluded on the assumption that its financing may have been affected not only by the economy in Indonesia, where the subsidiary does its business, but also by the Korean economy in which Samsung is based. We selected 1988 as the starting year of observation because the World Bank began to report capital market data in that year. We excluded deals made after 2008 because of potential censoring issues. Most deals included in the sample were either completed or withdrawn within two years. We believe that this time lag helps to avoid selection bias toward completed deals (Bao & Edmans, 2011).

The analysis focuses only on majority stake acquisitions and mergers; thus, deals categorized as minority stake acquisitions are excluded. Since our test requires data on the disclosed value of a given deal, the date of its announcement, the date of completion of or withdrawal from the deal, and the target's attitude toward the deal, rumored deals are also excluded. We also excluded deals in which repurchase programs, self-tender offers, splitoffs and spinoffs, recapitalization, or exchange offers were announced.

Variables and Measures

Dependent variable. The dependent variable, whether the acquisition deal is completed or abandoned, is based on the date information provided by the M&A database, which tracks the progress of every announced M&A deal. Data on each deal include the announcement date, the effective date, and the date of withdrawal. In this study, we consider deals with effective dates as completed deals and those with withdrawal dates to be abandoned deals. The dependent variable, *incomplete*, is coded as 1 if the deal is abandoned after the public announcement, and as 0 otherwise.

Explanatory variables. The *Capital Market Development* variable is measured by the most widely used indicator, stock market development, following the practice in various studies in the fields of finance and accounting (e.g., Leuz, Nanda, & Wysocki, 2003; Frost et al., 2006). The World Bank provides data regarding annual stock market development for all countries included in this research. The index indicates the market capitalization measure as a percentage of GDP. The minimum is 2.31 % (the percentage of market capitalization of Argentina in 1990) and the maximum is 278 % (that of South Africa in 2007).

The *Business Group Affiliation* variable is a dichotomous variable that is coded as 1 if the firm is affiliated with a business group, and 0 otherwise. We gained information on business groups through various single-country studies conducted by local researchers. As business groups may be called by different names and classified or ordered by different criteria, we assume the classification of local norms in local research to be the most appropriate to categorize the business groups. Khanna and Rivkin (2006) also pointed out that although it is very hard to find a clear definition of business groups, local businessmen can clearly classify what firms belong to which business groups. The local research sources are listed in Table 2.

From various local studies and data sources, we first made a list of business groups in each economy. Then, we cross-checked both the membership and the status of firms in these groups through web-based sources such as the group's official homepage, public announcements for analysts, and media announcements. For business groups that were acquired or reorganized within a certain time frame, the group membership variables were marked to be effective until the year before the event. For example, Daewoo-affiliated firms in South Korea were coded as affiliates of the business group only for deals made up to 1997, one year before the Daewoo group broke down.

Control variables. Deal-specific variables other than the acquirer's membership were controlled in this study. Assuming that acquirers can learn from prior deal-making processes (Dikova et al., 2010), we included the number of prior deals announced by the same acquiring company in the model as a control variable, *Deal Experience*. We expect deal experience to affect deal closure positively. The variable includes deals lacking certain information, such as deal completion date or transaction values, because insufficient information does not relate to the effect of the deal on the acquirer's learning from prior experiences.

We also controlled for the transaction value of the deal and the percentage sought in order to control for the variation in risk. *Deal Value* was assumed to affect deal completion negatively, directly burdening financing ability. The variable was measured using the natural logarithm of the value in US dollars. We also controlled for the *Percentage of Ownership* of the target company sought by the acquirer. Prior researchers pointed out that the higher the value and its percentage, the greater the

Table 2 References for business groups in emerging economies

Country	Referenced research and data source	Major groups included
Argentina	Carrera et al. (2003), Nro (2002) (based on IDEF of CTA)	Repsol, Techint, Acindar, Perez Companc, Arcor, YPF, Avila, SCP, Macri, Disco, etc.
Brazil	Aldrighi and Postali (2010) based on *Gazaeta Mercantil, Balanco Anual* (various issues)	Vale, Votorantim, Bradesco, Itausa, erdau, Petrobras, Camargo Correa, Ultra, CSN, Pao de Acucar, etc.
Chile	Lefort (2010), Majluf, Abarca, Rodriguez, and Fuentes (1998), Cortes and Betancour (2008), Paredes and Sanchez (1996)	Angelini, Matte, Luksic, Paulmann, Said, Endesa, Solari (Falabella), etc.
India	Sharkar (2010)	Reliance, Tata, ADAG, Bharti, Aditya Birla, Essar, Mahindra and Mahindra, Om Prakash Jindal, Adani, Wipro, etc.
Israel	Maman (1999), Blass, Yafeh, and Yosha (1998)	Koor, Hapoalim, IBD, Clal, ICL, Leumi, Ofer, African Israel Investment, etc.
South Korea	Chang (2006) (based on Fair Trade Commission); Fair Trade Commission of Korea (various issues)	Samsung, Hyundai, Daewoo, LG, SK, CJ, Lotte, Doosan, Hanhwa, Hanjin, etc.
Mexico	Trejo and Alquicira (2008), Hoshino (2004); *Los grupos mas importantes de Mexico* (Expansion, several years)	Carso, Alfa, Cemex, Bimbo, DESC, Imsa, Penoles, Emsa, GMexico, Vitro, etc.
South Africa	Rossouw, Van der Watt, and Rossouw (2002), Chabane, Roberts, and Goldstein (2006), Financial Mail (2001)	Anglo American, Sanlam, Absa, Liberty, Old Mutual, Naspers, RMH, Anglovaal, Remgro, Gold Fields, etc.
Turkey	Cavusgil, Civi, Tutek and Dalgic (2003), Çuhadar and Özmen (2008) (based on *Ekonomist,* 2007)	Koc, Sabanci, ENka, Zorulu, Ulker, Dogus, Dogan, Anadolu, Akkok, Alarko, etc.

Note: Business groups are represented in this table by the holding company name or family name of the group owners. All business groups have a number of affiliated firms, which are also included in our analysis.

stake for the acquirer's and target's shareholders, thus increasing the concerns about and commitment to the deal process (Dikova et al., 2010). *Government Involvement* is also included in the model to control for the possible effect of the government's involvement in the deal on either the acquiring side or the target side. The SDC database records whether the government is involved in the deal as a target/seller, acquirer/investor, or parent of any of the aforementioned agents. We controlled the government involvement effect by including two separate variables: sell-side government involvement and buy-side government involvement. In addition, the indicator variables for *Deal Attitude* are used to control for the effects of three different types of deal attitude: friendly, neutral, and hostile. We expect that hostile deals are more likely to be abandoned.

Model

We estimate a binary logistic regression model to examine the effects of capital market development and business groups on deal abandonment. The level of analysis is a transaction, and the regression model for the dependent variable is estimated as follows:

$$Log\left[\frac{P_{ij}}{1-P_{ij}}\right] = \alpha + \beta X_i + \gamma_j$$

where P_{ij} is the probability that transaction i of country j is to be abandoned, α is a constant, and β is a vector of the logistic regression coefficients for the respective set of independent variables, X_i. γ_j is an indicator variable for each country, implying that our analysis estimates country-level fixed effects.

RESULTS

The Main Effects of Capital Market Development and Business Groups

Table 3 provides means, standard deviations, and correlations for the dependent variable and independent variables used in the transaction-level analysis. About 20 % of acquirers in our sample transactions were affiliated with business groups.

Table 4 reports the results of tests using the binary logistic regression model. Model 1 tests the effects of capital market development (Hypothesis 1) and business groups (Hypothesis 2) on deal abandonment. According to the model, in which the country effect was controlled with indicator variables, both capital market development and business group affiliation lower the probability of deal abandonment. The results for capital market development are significant in the range of $p < 0.001$ and those for business group affiliation at $p < 0.002$. Therefore the results support both Hypothesis 1 and Hypothesis 2.

When all covariates are set to the mean values, the probability of deal abandonment is 2.5 %. The

Table 3 Descriptive statistics and correlation matrix of main variables

Variable	Mean	S.D.	1	2	3	4	5	6	7
1. Deal abandonment	0.032	0.175	1.000						
2. Capital market development	77.938	52.632	−0.011	1.000					
3. Business group affiliation	0.205	0.404	−0.025	−0.123	1.000				
4. M&A experience	3.337	4.606	0.009	−0.025	0.360	1.000			
5. Log (value of the deal)	2.355	2.216	0.059	−0.049	0.300	0.217	1.000		
6. % sought	60.220	37.162	0.011	0.094	−0.043	−0.013	0.131	1.000	
7. Sell-side government involvement	0.058	0.234	0.001	−0.158	0.107	0.102	0.141	0.069	1.000
8. Buy-side government involvement	0.025	0.157	0.014	−0.043	−0.002	0.054	0.077	−0.062	0.140

Note: The unit of analysis is the deal (N = 5,887). For example, the mean value of 0.205 for business group affiliation indicates that about 20.5 % of acquirers in our sample transactions were affiliated with business groups.

probability decreases to 1.4 % when the acquirer is affiliated with business groups, whereas it increases to 2.9 % for non-affiliated firms. When all covariates are set to the mean values including business group affiliations, one standard deviation increase in the capital market development index (52.63) decreases the probability of deal abandonment by 1.2 percentage points. Figure 1 summarizes the marginal effects of the main models. The probability of M&A deal abandonment decreases as the capital market develops. Also, the probability of M&A deal abandonment is consistently lower for business group-affiliated acquirers than that for independent acquirers regardless of the level of capital market development.

Some control variables that were expected to affect deal abandonment also had significant effects on deal completion. *Deal Value* significantly increased the probability of deal abandonment, as expected. However, no significant effect of *Percentage of Ownership* was evident in the results. The *Government Involvement* variable also showed no significant effects on deal abandonment.

Table 4 Results of logistic regression analysis on M&A deal abandonment

	Model 1 All deals	Model 2 Deals made by business groups	Model 3 Deals made by non-business groups
Capital market development	−0.010***	−0.008	−0.010***
	(0.003)	(0.006)	(0.003)
Business group affiliation	−0.752**		
	(0.242)		
M&A experience	0.024	−0.008	0.047*
	(0.019)	(0.030)	(0.023)
Log (value of the deal)	0.223***	0.379**	0.200***
	(0.045)	(0.115)	(0.047)
% sought	0.003	0.009	0.002
	(0.002)	(0.006)	(0.002)
Sell-side government involvement	−0.228	−0.571	−0.010
	(0.415)	(1.000)	(0.446)
Buy-side government involvement	0.235	−0.011	0.192
	(0.426)	(1.168)	(0.458)
Friendly attitude	−0.223	1.265	−0.370
	(0.253)	(1.093)	(0.255)
Hostile attitude	2.318**		1.668
	(0.853)		(1.119)
Number of bidders	1.042**	0.897	1.033*
	(0.353)	(0.546)	(0.407)
Number of observations	5887	1156	4678

Note: Nine indicator variables for each country are included in the analysis. The baseline for the deal attitude is neutral. Robust standard errors are provided in parentheses. In Model 2, hostile attitude is omitted due to its high correlation. In Model 2, 54 observations are dropped as they show no variation by the explanatory variables.
* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

Models 2 and 3 show the results of subsampled analyses for testing of Hypothesis 3, which posits differing effects of capital market development between business group-affiliated acquirers and non-business group-affiliated acquirers. Model 2 represents only deals involving business group acquirers; the effect of capital market development is not significant in this subsample. However, in the model for the non-business group acquirers subsample (Model 3), capital market development significantly decreases the probability of deal abandonment. Therefore as expected in Hypothesis 3, capital market development has different effects according to whether an acquiring firm is affiliated with business groups or not.

Figure 1 further illustrates the results with marginal effects included. It shows that while the business group acquirers have advantages over non-business group acquirers in terms of the probability of deal abandonment, the gap between the two types narrows as the capital market becomes more developed. When all covariates are set to the mean values, one standard deviation increase in capital market development (52.63) decreases the probability of deal abandonment by 1.4 percentage points for non-business groups, but only by 0.7 of a percentage point for business groups.

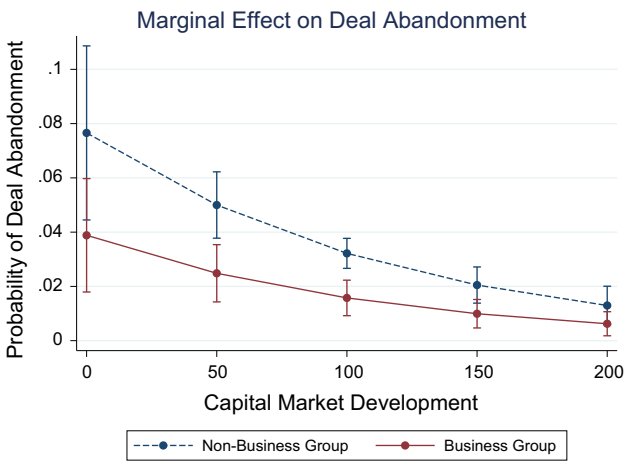

Figure 1 Marginal effects on deal abandonment. Note: The dots correspond to coefficient estimates from logit specifications in which deal abandonment is regressed onto capital market development, experience, deal values, % sought, government involvement, number of bidders, and indicator variables of nine countries and three deal attitudes. The 95 % confidence interval (corresponding to robust standard errors) around these estimates are plotted and represented by the bars around the dots.

Robustness Checks

We present several extensions of our analysis to assess the integrity of the results.

Direct indicator of the information effect. One of the main limitations in this research is that capital market development may not be a sufficiently direct measure of information asymmetry at the country level. To address this concern, we employ a more direct indicator of information asymmetry measured by the World Bank (2016). In particular, we focus on the business extent of disclosure index, which measures the extent to which investors are protected through disclosure of financial information and ownership. Scores on the index range from 0 to 10, with higher values indicating greater disclosure for related-party transactions. For example, higher values are observed when immediate disclosure of the transaction to the public, regulators, or shareholders is required, when disclosure in the annual report is required, or when an external body, for example, an external auditor, is required to review the transaction before it takes place, among other things.

Table 5 presents the results using the alternative indicator for the information effect. Since index data before 2004 is not available, the sample is significantly decreased in size compared to the main models. As shown in Table 5, the results with the business information disclosure index as an alternative indicator are not significant, although the sign of the coefficient is negative, as we expected. However, the results for our main independent variables, capital market development and business group affiliation, remain significant in Model 2 with the alternative indicator added.

Controlling for the banking system. Banking systems constitute another important institution in the capital market (e.g., Levine, 2002). Lacking the institutions that enable public investment, countries with emerging economies must rely on banks for major financing (Patrick & Meissner, 1986), which leads to the concentration of capital. To control for the effect of the banking system, we include domestic credit provided by the banking sector as a percentage of GDP (World Bank, 2016). This index, which is one of the World Development Indicators, measures domestic credit provided by the banking sector. It includes all credit to various sectors on a gross basis, with the exception of credit to the central government, which is net. The results are robust; with both measures (capital market development, measured as stock market development, and business group affiliation),

Table 5 Results of logistic regression analysis of the influence of information asymmetry on M&A deal abandonment

	Model 1	Model 2
Capital market development		−0.041***
		(0.008)
Business information disclosure	−0.020	−0.682
	(1.180)	(1.178)
Business group affiliation	−1.376*	−1.280*
	(0.534)	(0.518)
M&A experience	0.028	0.018
	(0.032)	(0.039)
Log (value of the deal)	0.190**	0.265***
	(0.061)	(0.067)
% sought	0.004	0.005
	(0.004)	(0.004)
Sell-side government involvement	0.241	0.404
	(0.741)	(0.693)
Buy-side government involvement	0.058	1.090
	(1.033)	(1.094)
Number of observations	1703	1703

Note: The sample is limited to deals announced after 2004, as the index of business extent of disclosure is not available for earlier years. Nine indicator variables for each country, three indicator variables for deal attitude (friendly/neutral/hostile), and an indicator of the number of bidders are included in the analysis. Robust standard errors are provided in parentheses.
* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

the abandonment rate is lower even after controlling for the banking system.

Inclusion of cross-border deals. Our main analysis focuses on domestic deals to rule out the possible effects of the liability of foreignness (e.g., Zaheer, 1995) or the institutional environment of the host country. However, we conducted an extended analysis including cross-border deals as well. The sample consists of 7,587 deals announced between 1988 and 2008.

Following Dikova et al. (2010), who argue that institutional differences reduce the probability of deal completion, we expect that deals are more likely to be abandoned in cross-border situations. However, the results when we include an indicator variable of cross-border deals show that the effect is not statistically significant; one possible reason is that not all cross-border deals should be treated equally. Considering the substantial variance in terms of the magnitude of institutional differences between the countries of acquiring and target companies, a dummy variable of cross-border deals may be insufficient to capture the effects of foreign deals.

Controlling for development in legal institutions. Regulatory and legal institutions are beyond the scope of our study, but they can greatly influence deal abandonment. On the one hand, regulatory institutions can affect deal closure, as firms must overcome procedural hurdles such as anti-trust laws and political regulations. On the other hand, institutions that enforce contracts may penalize acquirers that walk away from a deal without fulfilling their financial obligations.

With consideration for legal aspects, we control for these effects using Worldwide Governance Indicators (Kaufmann, Kraay, & Mastruzzi, 2009). These indicators report governance characteristics of the nine countries in our sample for many years (1996, 1998, 2000, and 2002–2008). We examine the effects of two factors, *Regulatory Quality* and *Rule of Law*, that are the most relevant to our study. Specifically, *Regulatory Quality* captures the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. We expect this indicator to partially control for the effect of regulations such as anti-trust laws. On the other hand, *Rule of Law* captures the extent to which agents have confidence in and abide by the rules of society in terms of the quality of contract enforcement, property rights, police involvement, and the courts. This variable is used to control for the effect of legal protection for the purpose of enforcing contracts, including M&As.

Even after we control for these two variables related to legal institutions, our results are robust. The coefficients for both capital market development and business group affiliation remain significant and negative.

Controlling for economic development. To control for the effect of economic development of each country, we include GDP (World Bank, 2016) in the regression model. Even after we control for economic development, the results are robust. The coefficients for both capital market development and business group affiliation remain significant and negative.

DISCUSSION AND CONCLUSIONS

In this article we illustrate how external and internal markets affect M&A deal abandonment in emerging economies with institutional voids in the capital market. Deal abandonment is largely caused by lack of information and failure to secure financing. Both information asymmetry and financing difficulty are aggravated by institutional voids in the capital market, the voids often observed in emerging economies. We show that

institutional development of the external capital market has a significant positive effect on the probability of deal completion, as it mitigates information asymmetry and financing difficulty. Alternatively, business group affiliation has a significant positive effect on the probability of deal completion, as business groups can benefit from internal markets that provide both capital and information. In the analysis of subsampled deals, capital market development was seen to lower the closing risk of transactions only for non-business group-affiliated firms, whereas capital market development had no significant effect on M&A deals for firms in business groups.

Our results contribute to the body of research on institutional voids in emerging economies. First, we provide rare empirical evidence on the impact of institutional voids on firm behaviors that cannot be uncovered simply by looking at common measures of firm performance such as profit, which may be affected by numerous unobservable factors. To our knowledge, no researchers have yet focused on and provided quantitative evidence for the completion of individual transactions in emerging economies. By treating large-scale M&A deals as individual transactions, we were able to observe the firms' behaviors, tracing every transaction. Focusing on deal abandonment provides a suitable empirical setting, yet does not harm the generalizability of the results. The theory developed herein can also be applied to other large purchases that require inspections once the offer is made, such as housing purchases (Khanna & Palepu, 2010).

Second, we empirically demonstrate substitutability between external capital markets and internal markets of business groups. In emerging economies, institutional voids may be filled by internal markets within a business group, whereas this benefit may be eroded by improvement of connectivity to external institutions. Although the theoretical discussion regarding the role of business groups is rich and various, empirical research including a comparison of multiple emerging economies has been largely lacking (Guillen, 2000). Based on a longitudinal analysis of data for business groups across diverse emerging economies, our results show that for firms in business groups, capital market development over time has little effect, while capital market development is important for non-business group-affiliated firms. Figure 1 further confirms that differences between business groups and non-business groups decrease as the external financial market develops. Policy implications are clear: if governments in emerging economies want to nurture business in independent companies without business group affiliations, thus avoiding excessive concentration of economic activity in business groups, they should foster the development of efficient external institutions such as capital markets.

Third, this study contributes to the literature on M&As, providing empirical evidence of both external and internal market effects on deal abandonment. The cancellation of a publicly announced deal entails huge costs for firms, both financially and in terms of reputation (Luo, 2005), but the importance of the pre-merger stage is often disregarded in existing studies of M&As (Ribeiro, 2010). A few exceptions exist, however; several scholars have examined the effects of uncertainty and information asymmetry (Bowers, Roenfeldt, & Trifts, 1991; Li, 2009), institutional differences (Dikova et al., 2010), or corporate governance (Cotter, Shivdasanib, & Zenner, 1997; Davidson et al., 2002; O'Sullivan & Wong, 1998) on deal completion, but the interplay between institutional development and organizational reaction has seldom been investigated. By examining both the effect of institutional- and organizational-level factors in the context of emerging economies, we add depth to the literature on completion of M&A deals.

Our results provide several interesting opportunities for further research. First, our research focuses on the likelihood of deal abandonment, making no assumptions about the likelihood of M&A deals. By focusing on the post-announcement stage of M&As, we clarify our research setting. The two reasons provided here – unexpected information and financial difficulty – describe why firms often abandon deals after the public announcement, and the theoretical basis and empirical design of this study focus on these factors. Our interest is thus confined to the post-announcement stage, but we acknowledge that institutional voids in capital markets can affect M&A deals at both the pre- and post-announcement stages. For example, on the one hand, institutional development may increase the likelihood of M&A deals to be announced, creating more active markets for corporate control. On the other hand, institutional development may decrease the likelihood of an announcement of M&A deals, reducing the number of impetuous decisions and volatile deals in the market for corporate control. We believe more general observation of the effects of institutional

voids on the market for corporate control in future studies may also provide interesting insights.

Second, focusing on the institutional voids in government regulation (Khanna & Palepu, 1997) can provide an alternative perspective for the phenomenon of deal abandonment illustrated here. As argued in Dikova et al. (2010), formal institutions can affect deal closure, as firms must overcome procedural hurdles such as anti-trust laws and political regulations. This alternative perspective also resonates with the results provided here. First, capital market development lowers information asymmetry not only between the acquirer and the target, but also between government or regulatory agencies and the acquirer. Therefore capital market development may indirectly fill institutional voids in government regulations, increasing the probability of deal completion. Second, the effects of business group affiliation on regulatory institutions are salient in emerging economies. Most local research on business groups mentioned their significant market dominance and connection to the government, which enables special benefits such as preferential tariffs or easy financing (Carrera, Mesquita, Perkins, & Vassolo, 2003; Keister, 1998; Khanna & Yafeh, 2007; Song, 2002). These connections and the dominance of business groups in emerging economies may explain why they have more success overcoming political and institutional adversity and why abandonment of announced M&A deals is less common in business group-affiliated firms.

Another related mechanism is the institution of contract enforcement. To avoid plunges in the value of target firms after M&A deal abandonment (Tokic & Beyea, 2009), target firms exploit instruments such as reverse termination fees (Hotchkiss et al., 2005), a penalty given to an acquirer if the acquirer does not make every effort to finance the deal. Where institutional voids exist, however, instruments that penalize arbitrary deal abandonment often do not exist. Therefore as institutional voids are filled, it is harder for an acquirer to walk away from a deal without fulfilling financing obligations or incurring significant legal costs. This alternative explanation can be supported by complementary research in future, in which variables frequently used in studies of regulation-related institutional voids may be exploited.

Lastly, we believe that expanding the scope of this research to countries with more diverse levels of institutional development may offer an interesting extension. Although our empirical results include countries at different stages of institutional development (see Fig. 1), whether business groups in developed economies play a less prominent role compared to the situation in emerging economies is not directly addressed (Khanna & Palepu, 2000a). A recent related study which includes European countries showed that countries with less developed financial markets have a higher percentage of group affiliates in more capital-intensive industries, affirming the internal market theory on which our study is based (Belenzon, Berkovitz, & Rios, 2013). Whether the business group effect examined in this study is transferable to other countries in which business groups pursue global expansion is another open question. Comparing business groups in emerging economies with MNCs from developed economies in this context may be another interesting topic for international business research.

NOTES

[1]For example, Muehlfeld, Sahib, and van Witteloostuijn (2012) estimate that the abandonment rate is as high as 27 % in the newspaper industry.

[2]Although South Korea is often categorized as a developed country, we include it in our sample because capital market institutions, the focus of our research, had been relatively underdeveloped in Korea. Khanna and Palepu (2010: 27) also note that "Korea has undergone spectacular development in its product market … whereas Korea's financial market markets remain constrained by the entanglement between banks and its chaebol business groups." In 2008, the end of our observation period, the country was categorized as an emerging market by both the MSCI (Morgan Stanley Capital International) index and the FTSE (Financial Times Stock Exchange) index.

REFERENCES

Akerlof, G. A. (1970). The market for "lemons": Quality uncertainty and the market mechanism. *The Quarterly Journal of Economics,* 84(3): 488–500.

Aldrighi, D., & Postali, F. (2010). Business groups in Brazil. In A. M. Colpan, T. Hikino, & J. R. Lincoln (Eds.), *The Oxford handbook of business groups* (pp. 353–386). Oxford: Oxford University Press.

Arrow, K. J. (1974). *The limits of organization*. New York: Norton.
Bao, J., & Edmans, A. (2011). Do investment banks matter for M&A returns? *Review of Financial Studies,* 24(7): 2286–2315.
Belenzon, S., Berkovitz, T., & Rios, L. A. (2013). Capital markets and firm organization: How financial development shapes European corporate groups. *Management Science,* 59(6): 1326–1343.
Blass, A., Yafeh, Y., & Yosha, O. (1998). Corporate governance in an emerging market: The case of Israel. *Journal of Applied Corporate Finance,* 10(4): 79–89.
Boone, A., & Mulherin, J. (2007). How are firms sold? *Journal of Finance,* 62(2): 847–875.
Bowers, H. M., Roenfeldt, R. L., & Trifts, J. W. (1991). Uncertainty during tender offers and the measurement of shareholder wealth effects. *Review of Quantitative Finance and Accounting,* 1(4): 399–407.
Boyd, J. H., & Prescott, E. C. (1986). Financial intermediary-coalitions. *Journal of Economic Theory,* 38(2): 211–232.
Bushman, R. M., Piotroski, J. D., & Smith, A. J. (2004). What determines corporate transparency? *Journal of Accounting Research,* 42(2): 207–252.
Capron, L., Dussauge, P., & Mitchell, W. (1998). Resource redeployment following horizontal acquisitions in Europe and North America, 1988–1992. *Strategic Management Journal,* 19(7): 631–661.
Carrera, A., Mesquita, L., Perkins, G., & Vassolo, R. (2003). Business groups and their corporate strategies on the Argentine roller coaster of competitive and anti-competitive shocks (1993–2005). *Academy of Management Executive,* 17(3): 32–44.
Cavusgil, S. T., Civi, E., Tutek, H. H., & Dalgic, T. (2003). Turkey. *Thunderbird International Business Review,* 45(4): 467–479.
Chabane, N., Roberts, S., & Goldstein, A. (2006). The changing face and strategies of big business in South Africa: More than a decade of political democracy. *Industrial and Corporate Change,* 15(3): 549–577.
Chang, S. J. (2006). *Business groups in East Asia: Financial crisis, restructuring, and new growth*. Oxford: Oxford University Press.
Chang, S. J., & Hong, J. (2000). Economic performance of group-affiliated companies in Korea: Intragroup resource sharing and internal business transactions. *Academy of Management Journal,* 43(3): 429–448.
Cho, D.-S. 1990. *Hankuk Chaebol Yeonku* (Research on Korean Conglomerates). Seoul: Maeil Business Newspaper Publishing (in Korean)
Choi, C. J., Lee, S. H., & Kim, J. B. (1999). A note on countertrade: Contractual uncertainty and transaction governance in emerging economies. *Journal of International Business Studies,* 30(1): 189–201.
Cortes, D. P., & Betancour, M. C. 2008. *Principales Grupos Empresariales Chilenos: Reporte 2008*. Centro de Emprendimiento & Innovacion: Facultad de Economia y Negocios, Universidad del Desarrollo.
Cotter, J. F., Shivdasanib, A., & Zenner, M. (1997). Do independent directors enhance target shareholder wealth during tender offers? *Journal of Financial Economics,* 43(2): 195–218.
Çuhadar, T., & Özmen, L. H. I. 2008. *Mission statement in institutional family business: A content analysis. Proceedings of International Conference on Management and Economics, 2008*. Epoka University: 120–132.
Davidson, W. N., Rosenstein, S., & Sundaram, S. (2002). An empirical analysis of cancelled mergers, board composition, and ownership structure. *Applied Financial Economics,* 12(7): 485–491.
Debreu, G. 1959. *Theory of value: An axiomatic analysis of economic equilibrium* (No. 17). New Haven, CT: Yale University Press.
Diamond, D. W. (1984). Financial intermediation and delegated monitoring. *Review of Economic Studies,* 51(3): 393–414.
Dikova, D., Sahib, P., & van Witteloostuijn, A. (2010). Cross-border acquisition abandonment and completion: The effect of institutional differences and organizational learning in the international business service industry (1981–2001). *Journal of International Business Studies,* 41(2): 223–245.
Ekonomist. 2007. En Zengin 100 Türk, 37:16–24.
Financial Mail. 2001. Giants. 30 November: 4–55.
Frost, C. A., Gordon, E. A., & Hayes, A. F. (2006). Stock exchange disclosure and market development: an analysis of 50 international exchanges. *Journal of Accounting Research,* 44(3): 437–483.
Gerlach, M. (1992). *Alliance capitalism: The social organization of Japanese business*. Berkeley, CA: University of California Press.
Goto, A. (1982). Business groups in a market economy. *European Economic Review,* 19(1): 53–70.
Guillen, M. (2000). Business groups in emerging economies: A resource-based view. *Academy of Management Journal,* 43(3): 362–380.
Hicks, J. (1969). *A theory of economic history*. Oxford: Clarendon Press.
Hitt, M. A., Dacin, M. T., Levitas, E., Arregle, J. L., & Borza, A. (2000). Partner selection in emerging and developed market contexts: Resource-based and organizational learning perspectives. *Academy of Management Journal,* 43(3): 449–467.
Hoshi, T., Kashyap, A., & Scharfstein, D. (1991). Corporate structure, liquidity, and investment: Evidence from Japanese industrial groups. *Quarterly Journal of Economics,* 106(1): 33–60.
Hoshino, T. 2004. *Family business in Mexico: Responses to human resource limitations and management succession*. Discussion paper No. 12, Institute of Developing Economies, JETRO, Japan.
Hoskisson, R. E., & Hitt, M. A. (1990). Antecedents and performance outcomes of diversification: A review and critique of theoretical perspectives. *Journal of Management,* 16(2): 461–509.
Hotchkiss, E., Qian, J., & Song, W. 2005. *Holdups, renegotiation, and deal protection in mergers*. Working paper series. Available at SSRN: http://ssrn.com/abstract=705365.
Kaufmann, D., Kraay, A., & Mastruzzi, M. 2009. *Governance matters VIII: Aggregate and individual governance indicators, 1996–2008*. World Bank Policy Research Working Paper, 4978.
Keister, L. A. (1998). Engineering growth: Business group structure and firm performance in China's transition economy. *American Journal of Sociology,* 104(2): 404–440.
Keister, L. A. (2001). Exchange structures in transition: Lending and trade relations in Chinese business groups. *American Sociological Review,* 66(3): 336–360.
Khanna, T., & Palepu, K. (1997). Why focused strategies may be wrong for emerging markets. *Harvard Business Review,* 75(4): 41–48.
Khanna, T., & Palepu, K. (2000a). The future of business groups in emerging markets: Long-run evidence from Chile. *Academy of Management Journal,* 43(3): 268–285.
Khanna, T., & Palepu, K. (2000b). Is group affiliation profitable in emerging markets? An analysis of diversified Indian business groups. *Journal of Finance,* 55(2): 867–891.
Khanna, T., & Palepu, K. (2010). *Winning in emerging markets: A road map for strategy and execution*. Boston: Harvard Business Press.
Khanna, T., & Rivkin, J. W. (2001). Estimating the performance effects of business groups in emerging markets. *Strategic Management Journal,* 22(1): 45–74.
Khanna, T., & Rivkin, J. W. (2006). Interorganizational ties and business group boundaries: Evidence from an emerging economy. *Organization Science,* 17(3): 333–352.
Khanna, T., & Yafeh, Y. (2007). Business groups in emerging markets: Paragons or parasites? *Journal of Economic Literature,* 45(2): 331–372.

Kim, C., & Song, J. (2007). Creating new technology through alliances: An empirical investigation of joint patents. *Technovation,* 27(8): 461–470.
Kumar, N. (2009). How emerging giants are rewriting the rules of M&A. *Harvard Business Review,* 87(5): 115–121.
La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1998). Law and finance. *Journal of Political Economy,* 106(6): 1113–1155.
Leff, N. (1978). Industrial organization and entrepreneurship in the developing countries: The economic groups. *Economic Development and Cultural Change,* 26(4): 661–675.
Lefort, F. (2010). Business groups in Chile. In A. M. Colpan, T. Hikino, & J. R. Lincoln (Eds.), *The Oxford handbook of business groups* (pp. 387–423). Oxford: Oxford University Press.
Leuz, C., Nanda, D., & Wysocki, P. D. (2003). Earnings management and investor protection: An international comparison. *Journal of Financial Economics,* 69(3): 505–527.
Levine, R. (1997). Financial development and economic growth: Views and agenda. *Journal of Economic Literature,* 35(2): 688–726.
Levine, R. (2002). Bank-based or market-based financial systems: Which is better? *Journal of Financial Intermediation,* 11(4): 398–428.
Levine, R., & Zervos, S. (1996). Stock market development and long-run growth. *The World Bank Economic Review,* 10(2): 323–339.
Li, L. 2009. *Information asymmetry in the takeover market*. Unpublished Ph.D. Dissertation, School of Accounting and Finance, The Hong Kong Polytechnic University.
Luo, Y. (2005). Do insiders learn from outsiders? Evidence from mergers and acquisitions. *Journal of Finance,* 60(4): 1951–1982.
Majluf, N., Abarca, N., Rodriguez, D., & Fuentes, L. (1998). Governance and ownership structure in Chilean economic groups. *Revista Abante,* 1(1): 111–139.
Makhija, M. V. (2004). The value of restructuring in emerging economies: The case of the Czech Republic. *Strategic Management Journal,* 25(3): 243–267.
Maman, D. (1999). Research note: Interlocking ties within business groups in Israel—A longitudinal analysis, 1974–1987. *Organization Studies,* 20(2): 323–339.
Mitchell, M., & Pulvino, T. (2001). Characteristics of risk and return in risk arbitrage. *Journal of Finance,* 56(6): 2135–2175.
Muehlfeld, K., Rao Sahib, P., & van Witteloostuijn, A. (2012). A contextual theory of organizational learning from failures and successes: A study of acquisition completion in the global newspaper industry, 1981–2008. *Strategic Management Journal,* 33(8): 938–964.
Neary, J. P. (2007). Cross-border mergers as instruments of comparative advantage. *Review of Economic Studies,* 74(4): 1229–1257.
North, D. (1990). *Institutions, institutional change, and economic performance*. Cambridge: Cambridge University Press.
Nro, C. 2002. Argentina. El nuevo plan social de Duhalde: Los ganadores de la devaluacion y la pesificacion. IEF, CTA, Buenos Aires, Argentina. Retrieved on July 22, 2016 from http://168.96.200.17/ar/libros/argentina/iefcta/grupos.rtf.
O'Sullivan, N., & Wong, P. (1998). The impact of board composition and ownership on the nature and outcome of UK takeovers. *Corporate Governance: An International Review,* 6(2): 92–100.
Paredes, R., & Sanchez, J. (1996). *Organizacion Industrial y Grupos Economicos: El Caso de Chile*. Santiago de Chile: Departamento de Economia, Universidad de Chile.
Patrick, H., & Meissner, L. (1986). *Japan's high technology industries: Lessons and limitations of industrial policy*. Seattle, WA: University of Washington Press.
Peng, M. W., Wang, D. Y. L., & Jiang, Y. (2008). An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies,* 39(5): 920–936.
Ribeiro, H. (2010). The missing links of mergers and acquisitions waves. *IUP Journal of Business Strategy,* 7(3): 7–25.
Rossouw, G., Van der Watt, A., & Rossouw, D. (2002). Corporate governance in South Africa. *Journal of Business Ethics,* 37(3): 289–302.
Roy, M. (2004). Beyond the closing table: M&A considerations from a banker's perspective. *Journal of Corporate Accounting & Finance,* 15(2): 25–29.
Schumpeter, J. A. 1912. *Theorie der wirtschaftlichen Entwicklung*. Duncker & Humblot.
Sharkar, J. 2010. Business groups in India. In A. M. Colpan. T. Hikino, & J. R. Lincoln (Eds), *The Oxford handbook of business groups*: 294–323. Oxford: Oxford University Press.
Sherman, A. J. (2005). Managing the M&A deal killers. *Journal of Corporate Accounting & Finance,* 16(2): 17–19.
Siegel, J. (2009). Is there a better commitment mechanism than cross-listings for emerging-economy firms: Evidence from Mexico. *Journal of International Business Studies,* 40(7): 1171–1191.
Song, J. (2002). Diversification strategies of Korean business groups: Resource-based and institutional perspectives on the causes of diversification. *Journal of Strategic Management,* 5(1): 27–44.
Sun, S., Peng, M., Ren, B., & Yan, D. (2012). A comparative ownership advantage framework for cross-border M&As: The rise of Chinese and Indian MNEs. *Journal of World Business,* 47(1): 4–16.
Suzuki, S., & Wright, R. (1985). Financial structure and bankruptcy risk in Japanese companies. *Journal of International Business Studies,* 16(1): 97–110.
Tokic, S., & Beyea, G. (2009). An M&A lesson: Should money always talk? *Journal of Corporate Accounting & Finance,* 20(2): 9–16.
Trejo, A. R., & Alquicira, A. M. 2008. Estrategias de competencia (1987–2005). *Ide@s CONCYTEG*, 41(3): 1176–1205.
Westlaw Business. (2009). *Pharma M&A: Financing outs are back in*. Eagan, MN: Thomson West.
Weston, J. F., Mitchell, M. L., & Mulherin, J. H. (2004). *Takeovers, restructuring and corporate governance*. Upper Saddle River, NJ: Pearson Education.
World Bank. (2016). *Doing business 2016: Measuring regulatory quality and efficiency*. Washington, DC: World Bank.
Zaheer, S. (1995). Overcoming the liability of foreignness. *Academy of Management Journal,* 38(2): 342–363.

ABOUT THE AUTHORS

Hyejun Kim is currently a PhD candidate at Sloan School of Management, Massachusetts Institute of Technology. Her primary areas of interest include economic sociology, cultural production, entrepreneurship, and innovation. Her current works focus on the role of a producer's identity on its strategy. She received her MS and BA from Seoul National University.

Jaeyong Song received his PhD at the University of Pennsylvania. Before joining Seoul National University, he was a professor at Columbia University. His research has appeared in top journals such as *Management Science*, *Strategic Management Journal*, *Organization Science*, *Journal of International Business Studies*, *Journal of Economics and Management Strategy*, *Harvard Business Review*, and *Research Policy*. Jaeyong Song served as an editor of JIBS.