

Business groups in East Asia: Post-crisis restructuring and new growth

Sea-Jin Chang

Published online: 18 November 2006
© Springer Science + Business Media, LLC 2006

Abstract Business groups played an important role in the economic development of East Asian countries. Yet business groups in East Asia face an uncertain future. Following the Asian Crisis, foreign creditors and investors have demanded that business groups have more transparent operations and stronger corporate governance. At the same time, as governments in East Asia have loosened trade barriers, business groups have become subject to intense competition in domestic markets. This paper argues that business groups can survive or even prosper by taking initiatives in corporate restructuring. This paper also highlights some areas for further research on business groups in this region.

Keywords Business group · East Asia · Post-crisis restructuring

Business groups exist throughout the world.¹ Conglomerates in the Western hemisphere, “keiretsu” in Japan, “grupos economicos” in South American countries, and “business houses” in India are only a few well-known examples. Although their exact features differ from country to country because of distinct economic, social, and cultural environments, they also have important similarities. Most notably, business groups pursue unrelated product diversification under centralized control.

¹See Granovetter (1995) for a review. Ghemawat and Khanna (1998) provide a table that summarizes the evidence that business groups are prevalent in developing countries. See McVey (1992) and Orru et al. (1997) for examples of business groups in Southeast Asia, Strachan (1976) for Nicaragua, and Ghemawat and Khanna (1998) and Kedia et al. (2006) for India, Chang (2003a) for Korea, and Khanna and Wu (1998) for Chile. Business groups emerged in former socialist countries during the privatization process. During the rapid privatization in Czechoslovakia, various forms of cross ownership among banks and investment trust funds were formed, and many of those investment trust companies turned themselves into holding companies (Coffee, 1999). Similarly, Stark (1996) showed how previously state-owned firms in Hungary purchased small firms and formed groups.

This paper is based on the author’s keynote speech at the *APJM* Conference on the Business Groups in East Asia in Singapore, December 2005. I thank editors Andrew Delios and Mike Peng for their encouragement and conference participants for their discussion.

S.-J. Chang (✉)

School of Business Administration, Korea University, Seoul 136-701, South Korea
e-mail: schang@korea.ac.kr

Business groups are indeed important to many East Asian countries' economies. In Korea, for instance, the top 30 business groups, known as chaebols, accounted for 40% of Korea's output in the mining and manufacturing sectors and 14% of GNP in 1996. In Thailand, Malaysia, Singapore, and Taiwan, business group affiliates (henceforth, referred to as affiliates) that were listed on these countries' stock exchanges accounted for 24.3, 24.9, 39.6, and 56.2%, respectively, of these exchanges' total market capitalization in 2002.

East Asian business groups, however, face an uncertain future. Since the 1980s, foreign creditors and investors have become more important to East Asian economies. The sudden outflow of foreign capital out of the region in 1997, known as the Asian Crisis, significantly affected business groups in this region. During this crisis, many business groups went bankrupt, as did the financial service firms that lent them money. Interest rates and exchange rates skyrocketed. Unemployed people filled the street. Although the crisis affected Thailand, Indonesia, Korea, and Malaysia most directly, other East Asian countries, such as Singapore, that depended heavily upon intra-region trade were also hurt by this crisis.

Korea, Indonesia, and Thailand received large support packages from the IMF. Malaysia did not receive any support from the IMF, weathering the crisis by controlling inflows and outflows of foreign capital and depreciating its currency. The IMF demanded that countries receiving assistance adopt draconian measures of restructuring in return for the relief funds. At the same time, as governments in East Asia have loosened trade barriers and as many bankrupt local firms were sold to foreign investors after the crisis, business groups have become subject to intense competition in both domestic and international markets (Ahlstrom & Bruton, 2004).

In this paper, I first sketch the post-crisis challenges to business groups in East Asia and then outline how they have responded to these challenges. I will conclude by exploring on the future of business groups in this region and highlighting some areas of research on this topic by management scholars.

The post-crisis changes in business environments

Banks and corporate restructuring programs

Prior to the crisis, there were many structural weaknesses in the financial sector. Ineffective bank regulation and supervision and poor accounting and disclosure diminished transparency. For example, many family-controlled business groups in Indonesia and Malaysia owned banks. They used the banks' reserves as if these funds belonged to them and extended credit to their own affiliates. Non-bank financial institutions, especially in Korea and Thailand, often lacked adequate discipline (Chang, 2003b). They could borrow foreign capital and loan it to domestic borrowers that were politically connected or were affiliated with the same business groups.² Right after the crisis, many financial institutions in Indonesia, Korea, Malaysia, and Thailand were severely distressed or insolvent. Governments in Korea, Malaysia, and Indonesia had to infuse public funds into technically bankrupt banks. Government-owned asset management companies acquired non-performing loans at discounted prices. Thailand closed two-thirds of its finance companies, while Korea closed two-thirds of its merchant banks. Indonesia closed many banks and

² See the following for more information on the structural weaknesses of East Asian countries: International Monetary Fund (IMF) (1999), World Bank (1998) and World Bank (2000).

placed others under government supervision. Other East Asian countries initiated somewhat different reforms. Some injected massive public funds into commercial banks to keep these institutions solvent. Malaysia restructured its banking industry through mergers and acquisitions. China accelerated its enterprise restructuring and financial sector reform and increased the capitalization of its state-owned banks. Overall, banks in East Asia became larger through mergers, while their governments set up better means for monitoring the soundness of these banks.

Corporate governance reforms

Weak corporate governance mechanisms in East Asia also precipitated the crisis. Firms in East Asian countries relied mainly on bank financing. Securities markets were not well developed since they required a more sophisticated institutional and regulatory infrastructure. Financial firms were not regulated sufficiently, and many East Asian governments allocated capital, further undermining the development of banks' lending function. The interlocking ownership and other interrelationships between banks and corporations also reduced market discipline. Other supporting institutions, such as credit rating agencies and regulatory agencies were not yet fully developed.

Immediately after the crisis, the need to address shortcomings in supervision, regulation, accounting, auditing, and legal standards was widely emphasized. Each crisis-affected country adopted measures to improve loan standards. Korea, for instance, redefined loans past due from 180 to 90 days late, and began using the forward-looking method to define loan loss provision. These countries also improved their supervision of banks.³

Lax enforcement of investor rights has also been pointed out as a weakness of East Asian economies (Johnson, Boone, Breach, & Friedman, 2000). There are several ways to improve investor protection. Transparency can be enhanced through more stringent disclosure requirements that are based on international accounting and auditing standards. Monitoring institutions such as credit rating agencies can be created. Most East Asian governments realize that they need to adopt such measures to ensure access to adequate supplies of foreign capital. As East Asian countries are more integrated into the global economy, they will become more subject to the influence of foreign capital. For instance, foreign ownership increased to nearly 40% of Korea's total market capitalization. The increased presence of foreign investors has led to greater minority shareholder activism, another significant structural change that has influenced the behavior of listed companies.

Intensified global competition

Business groups now face more intense domestic and international competition. In the past, East Asian governments aggressively blocked imports and protected their domestic markets. Since World War II, the GATT helped remove tariff barriers and other non-tariff barriers among its members. The WTO, which began operating in 1995, further strengthened the enforcement of GATT rules. Several crisis-affected countries removed trade and investment barriers to comply with the IMF's conditions for relief. In addition, many financially troubled companies were sold to foreign multinationals. For instance, in Korea, Japanese auto and electronics manufacturers can now sell their products. Volvo and Renault acquired Samsung's heavy equipment business and automobile ventures, and GM acquired Daewoo Motors. Such acquisitions will spur competition, as business groups will

³ See World Bank (2000).

feel pressure to focus on their core business and to refrain from diversifying into unrelated businesses.

The post-crisis evolution of business groups in East Asia

Chang (2006) examined the impact of the Asian Crisis on the institutional environments and business groups in these countries. Individual chapters of the book showed how states, markets, and socio-cultural environments have interacted with business groups in the aftermath of the crisis.⁴ Chang (2006) suggested three general conclusions. First, despite the hardships associated with the crisis, most business groups in East Asia remained essentially *intact* and showed they were robust to external shocks. Second, the business groups of each country developed in very divergent ways in response to the crisis. Third, several affected nations changed their institutional environments following the crisis. They enhanced corporate governance and tightened capital market supervision. These changes will have long-term ramifications for business groups in this region.

Robustness of business group structure

A critical commonality emerging from the individual country chapters of Chang (2006) is the robustness of the business group structure. One might have expected this crisis would have wiped out debt-ridden business groups in the affected countries and that the post-crisis restructuring programs initiated by the IMF and World Bank would have instituted a corporate governance system similar to the Anglo-Saxon model. Despite adverse conditions, most business groups in this region did not collapse. Many remained intact and some even prospered. In countries not directly affected by the crisis, such as Taiwan and China, business groups kept growing.

Although financial crisis, accounting changes, and foreign influence caused upheaval in some groups, other fundamental business group practices persisted either because they had real benefits or better matched a given institutional environment. According to market imperfection theorists (Leff, 1978), business groups thrive when markets are imperfect. When capital markets and intermediate goods markets malfunction, business groups fill this gap by internalizing their business transactions. As long as markets remain imperfect, business groups in East Asia will prosper. In addition, East Asian business groups may be socially and culturally embedded in the specific countries where they operate (Evans, 1995; Granovetter, 1995; Orru, Biggart, & Hamilton, 1997). Keiretsu may be based on the close exchange relationships embedded in Japanese society. Similarly, Korean groups and Taiwanese groups might fit the patrimonial and patrilineal cultures of their respective countries. The conflicts between indigenous locals and ethnic Chinese in other Southeast Asian countries might impel existing groups either to promote local indigenous capital or to protect their own interests (Gomez & Jomo, 1999). Continued government intervention, even after the crisis, also distorts the market, thus providing business groups with chances to create value.

The robustness of the business group structure suggests accounts of globalization's impact have often been exaggerated (Guéhenno, 1995; Ohmae, 1990). Globalization theorists have argued that global convergence of markets and business organizations will occur due to intensified global competition. The post-crisis restructuring of business groups

⁴ This section is largely drawn from Chang (2006).

provides further evidence that changes attributed to globalization are more evolutionary than revolutionary (Campbell, 2004).

Divergent development paths

The individual country chapters of Chang (2006) also reveal that business groups in each country have responded to the Asian Crisis differently. Government in each country perceived problems of varying magnitudes, and had different levels of capabilities to implement changes. Business groups fiercely resisted any changes that would undermine their resources and power bases. The incumbent institutional infrastructures, culture, social norms and ethnic conflicts in each country further constrained actors' choices. The outcomes of such constraints are divergent development paths (Whitley, 1999).

Japan differs from other East Asian countries in that the state did not seriously attempt to break up, weaken, or restructure business groups; these groups themselves simply were not an issue on the reform agenda of the Japanese government. It is impossible to think of entrepreneurs on a group-wide level in Japan because groups had no center and instead comprised more informal webs of relationships. Furthermore, Japan is a wealthy country with a high level of foreign reserves. Its inertia might be due to its past success. Nor was it forced to change by the IMF. The fact that better-performing, stronger Japanese companies have been less likely to sever ties is consistent with the economic rationale for business groups. This finding can be interpreted in various ways: high-performers have not encountered a crisis that has forced them to break ties, or well-managed, high-performing firms continue to find value within group relationships. The combination of the tendency for weak groups to break apart and of more peripheral ties to be broken even in stronger groups suggests there might be a greater bifurcation between tightly linked members of surviving groups and more independent firms. Some groups will survive, and others will not (Isobe, Makino, & Goerzen, 2006).

Korea was the only country among the former NICs that was directly hit by the crisis. When it became technically bankrupt, the Korean government had to accede to the demands of foreign investors. In the post-crisis restructuring of Korea, the state acted as an agent for foreign capital by following the IMF guidelines closely. Although many business groups went bankrupt and dissolved, surviving groups stayed largely intact. These survivors are, however, under great pressure from both domestic and foreign investors to become less diversified and to focus more on their core businesses.

Taiwan and Singapore were not directly affected by the crisis. Yet each country and its business groups have developed differently. Taiwanese business groups have continued to expand and diversify, especially after deregulation, likely in response to the removal of barriers that prohibited private firms from entering certain markets (Chung, 2006). Furthermore, because Taiwan was not directly affected by the crisis, there seemed to be no need to curb business groups' expansion. In contrast, the Singapore government emphasized divestment, foreign acquisitions, and professional governance. In Singapore, the distinction between the state and the private sector has been blurry. Many state-owned enterprises formed business groups run by professional managers. When the crisis began, the government sensed the weaknesses of the group structure—weak corporate governance and a lack of market discipline—and initiated restructuring. Yet the pace of divestment by the government-linked groups and banking groups has been gradual at best, reflecting the inertia of government institutions.

Business groups in Malaysia, Thailand, and Indonesia have not exhibited any coherent pattern of restructuring after the crisis. Rather, indigenous business groups that possessed

connections with the ruling political powers have generally avoided losses and benefited from the crisis by acquiring failed businesses (Dieleman & Sachs, 2006). The conflict between indigenous people and ethnic Chinese has further distorted the restructuring process and aggravated cronyism and corruption. Despite the crisis, these countries did not capitalize on the opportunity to build institutional infrastructures that might restructure business groups.

For example, in Malaysia, the failure of leading *Bumiputeras* firms created a political crisis. Business groups with better political connections survived, whereas less connected groups generally did not. Even after the crisis, key political figures maintained their corporate interests and benefited from privatized contracts. Various structural reforms to enhance transparency and accountability in government were not implemented. Similarly, in Thailand, although the government undertook various effective legal measures to remodel the country's institutional environment, the ownership structures of business groups remained intact (White, 2004). Nonetheless, many big Thai business groups lost their financial bases, thus limiting their ability to obtain funds as easily as they used to. In Indonesia, business groups are still struggling to survive. Since the Asian financial crisis, some groups have transformed their corporate structures and survived the turmoil. Others have lost control over their companies or struggled to keep control. It is not clear what, if anything, has separated the winners from the losers in this endgame, apart from political connections with the ruling politicians.

Unlike their counterparts in other East Asian countries, Chinese business groups, which have been transformed from state-owned enterprises, are still in an early stage of development (Ma, Yao, & Xi, 2006; Lu & Yao, 2006). When the crisis tested Korean chaebols' resiliency, there were heated debates in China on the government's policy of promoting business groups in China, as Korean chaebols have been one model of business groups for Chinese policy makers. Although Chinese policy makers agree that the business group structure can help develop China's economy, they have discouraged the overly rapid growth and unrelated diversification that characterized many unsuccessful Korean chaebols.

This divergent pattern of development again counters globalization theorists' arguments about rapid global convergence. This argument suggests global competition will encourage all nations to pursue a common set of neo-liberal programs to attract liquid capital, and that large corporations should pursue a common structure and strategy because firms, like states, have become more eager to shift capital and operations from one country to another. As Campbell (2004) showed, nations have often not competed to attract foreign capital, and many country-specific institutional arrangements related to organized labor, business, and electoral politics have constrained the predicted effects of globalization. Similarly, Mayer (1998) and La Porta, Lopez-la-Salianez, Shleifer, and Vishny (1998) observed that ownership and control mechanisms still vary greatly throughout the world. This trend refutes the notion of a global convergence towards the Anglo-Saxon model of corporate governance. Instead, there is "divergent capitalism," which connotes distinct combinations of markets and economic organizations in each country that are adapted to respective institutional environments (Guillen, 2001; Whitley, 1999).

Changes within continuity

Although many business groups in each country have remained robust and have continued to develop quite differently, the institutional environments surrounding business groups have undergone important changes. The inflow of foreign capital, which increased consistently throughout the 1990s, was accompanied by demands for accounting

transparency and stronger corporate governance. The inflow of foreign capital via portfolio investment and foreign direct investment in the post-crisis period has been restored to its pre-crisis level. This inflow remains critical to East Asian countries because many lack the accumulated capital to sustain their future growth. Foreign investors' influence has increased substantially since the crisis, however, as East Asian governments have had to accommodate their demands to keep attracting foreign capital. Governments supervise banks more closely, and have loosened restrictions on mergers and hostile takeovers, further strengthening the discipline of the market. Various entry barriers that had inhibited foreign multinationals from competing in national markets were lifted, exposing business groups to intensified foreign competition. These groups have had to respond to this challenge by focusing on core businesses while divesting unrelated ones. This crisis-induced restructuring is most evident in Korea. In other countries that were directly affected by the crisis, namely Malaysia, Indonesia, and Thailand, the governments have enforced their financial service institutions more stringently and passed laws to strengthen corporate governance. Although it is unclear whether these new arrangements will be effectively implemented, they have the potential to improve capital market functioning in these countries.

There have also been substantial changes in the institutional environments of East Asian nations that were not directly affected by the crisis. For instance, foreign investment into Japan increased sharply. The Japanese government announced financial reforms, including an overhaul of Japanese accounting regulations to make Japanese accounting standards consistent with international standards. As part of these reforms, firms were required to report the value of their equity holdings at market value, which resulted in massive sales of bank-owned shares of keiretsu firms. Another reform was a more stringent requirement for consolidation, which made it harder for firms to manage their earnings by allocating gains and losses among group firms. Although these reforms were not directly targeted at keiretsu, they have resulted in weaker ties among poorly performing keiretsus. In Singapore, the government restructured the financial sector and strengthened corporate laws and accountancy practices. It pressured both government-linked corporations and private firms to compete in other nations, divest their non-core assets, and professionalize their corporate governance.

Preparing for the second wave

Business groups are creatures of market imperfections, government intervention, and socio-cultural environments. I expect that as long as markets, especially capital markets, are imperfect and the East Asian governments influence resource allocation, business groups will continue to exist and even prosper in this region. As markets become more efficient and government intervention subsides, business groups may lose their reason for existence and see their influence decline (see Peng, Lee, & Wang, 2005 for a similar argument).

Stronger supervision of financial service institutions and enforcement of stronger corporate governance mechanisms will reduce opportunities for business groups to create value. These incremental changes in institutional environments might induce East Asian business groups to restructure in the long run. East Asian business groups might undergo a "second-wave" of restructuring as their nations' capital markets and other institutions develop further and as they compete more intensely with foreign multinationals. If this trend continues, business groups in East Asia may have to narrow down their business portfolios and focus upon their core businesses.

Business groups will not, however, disband overnight. It takes time to build institutions and for the effects of competition to be felt (North, 1990). Furthermore, continued state intervention and the underlying socio-cultural environments in East Asian countries may continue to favor business groups in those countries. Each country's history, culture, kinship relations, and ethnic composition will continue providing a strong rationale for affiliates to gather under the umbrella of business groups. Business groups can prosper by focusing on shared resources for which markets are still imperfect, such as managerial talent, brands, and technology, while remaining firmly embedded in their institutional environments. Ethnic tensions and governments' agendas to develop indigenous capitalists in some Southeast Asian countries will continue to aid business groups in those countries.

Business groups in East Asia will also continue expanding overseas. In part, these business groups pursued unrelated product diversification to capture the potential rents of access to protected domestic markets. As these markets became more open, East Asian business groups in this region have responded to intensified competition from foreign multinationals by becoming more global. For instance, several Korean companies emerged as strong global contenders. Samsung Electronics has used its prowess in semiconductors, flat panel displays, and mobile phones to command large global market shares and high profitability. Singapore government also urged its business groups to divest unrelated businesses and to undertake global strategies and overseas investment. Several Chinese business groups are pursuing acquisitions of foreign firms to purchase valuable brands and technology, as exemplified by TCL's acquisition of Thomson, Lenovo's acquisition of IBM's PC business, and Shanghai Automobile Industrial Corporation's (SAIC) acquisition of Ssangyong Motors.

If East Asian business groups continue to expand internationally, they will likely continue to prosper. Yet, they will probably also become less product diversified than they were before the Asian Crisis. As they become more focused and globally oriented entities, business groups will continue to be important vehicles for the sustained future growth of this region.

Implications for management researchers

Management researchers in East Asia are fortunate in the sense that they have ample research sites and interesting research topics floating around themselves. They should be careful, however, *not* to approach business groups as a special entity specific to each East Asian country. Research on business groups can be better appreciated by a larger academic community if business groups are treated as a general form of diversified corporations that are commonly found in every part of the world. By doing so, researchers of business groups can contribute to the advancement of collective learning on the diversified corporations. I personally believe that business groups in East Asia provide interesting opportunities to overcome some limitations of existing diversification research.

A diversified corporation typically consists of several strategic business units, which possess their own resources and competencies. Conventional diversification research has measured resources, relatedness, diversification strategy, organizational structure, and performance only at the corporate level and not at the business unit level, mainly due to the paucity of business unit level data. Thus, researchers have implicitly assumed that resources exist only at the corporate level, and that firm performance is contingent upon the overall relatedness of business units. I believe that business groups provide an excellent means for observing the resource heterogeneity of business units in a diversified corporation. Although group-affiliated companies are legally independent firms with their own

intangible and tangible resources, they essentially function as operating divisions under the control of group headquarters. By measuring the resources and performance of each individual business unit, i.e., an affiliate company, researchers can extract more precisely what portion of firm profitability is attributable to operating synergies that stem from resource sharing with other business units.

Second, an investigation of intra-group business transactions can also highlight the operations of internal markets within a diversified corporation. In a diversified corporation, resources and capabilities should be transferred from one unit to another or should be shared by several others in order to create synergies. Since firms seldom disclose information on internal transactions, strategy research on these operations has been severely restricted relative to the importance of this phenomenon. Since group-affiliated firms are legally independent but may report their business transactions with their affiliates in their financial statements, we can assess to what extent intra-group resource sharing is relevant. For instance, in my own research on Korean business groups (Chang & Hong, 2000), I measured various forms of intra-group transactions such as intra-group buying and selling, equity investment, and intra-group loans among group affiliates and estimated their impacts on a focal firm's performance. I believe similar yet improved approach can be applied to business groups in other countries to highlight intra-group resource sharing and transfer of skills to create synergies within groups.

Third, business groups provide an interesting setting to examine various issues of corporate governance. Some affiliates within a group are listed and others remain as privately owned. Within each affiliate, different types of owners may coexist. They include family owners, foreign investors, individual investors, financial service institutions, and government, each of whom has different preferences for investment time horizon, acceptable risk level, and the risk-return trade offs. Many interesting issues in corporate governance such as tunneling, IPO decisions, and the relationship between ownership structure and performance, can be explored in the context of business groups.

Fourth, related to the above issues, researcher can benefit from recent development of network methodology. Business groups can be conceived as a type of network where individual affiliates are connected with each other through both personal and equity ties. Some groups are more tightly linked and controlled such as Korean chaebols, while others such as Japanese keiretsu can be viewed as loosely coupled. Application of a network analysis framework can help researchers further examine various management issues such as interlocking directorship and diffusion of management innovations.

Fifth, business groups also provide an interesting setting to explore entrepreneurship, a rapidly expanding field of research. Founders of business groups are often private entrepreneurs. A historical analysis of the growth of business groups can highlight how each entrepreneur started up his/her own business and expanded it to create a group while overcoming many difficulties. Another important related issue is the professionalization of management. The management ranks of business groups are often occupied by family members, inheriting management positions to the second or the third generations. Quite often, the management prowess of the chosen heir is not proven and giving him/her too much control can risk the entire group, which was proved to be true in the bankruptcies of many business groups in Korea, run by the second or third generations, during the crisis. The trade-off between the proven professional managers and the entrusted family members whose management capabilities are doubtful can be an important management succession issue faced by many group founders.

To conclude, business groups pose great opportunities for management researchers to contribute to enhance our understanding of diversified corporations, which can be well

applied to other diversified corporations in other parts of the world. At the same time, this research agenda has strong practical implications for managers in this region. I strongly encourage management researchers to expand and deepen their research on business groups in East Asia.

References

- Ahlstrom, D., & Bruton, G. 2004. Turnaround in Asia: Laying the foundation for understanding this unique domain. *Asia Pacific Journal of Management*, 21: 5–24.
- Campbell, J. 2004. *Institutional change and globalization*. Princeton, NJ: Princeton University Press.
- Chang, S. J. 2003a. Ownership structure, expropriation, and performance of group-affiliated companies in Korea. *Academy of Management Journal*, 46: 238–253.
- Chang, S. J. 2003b. *Financial crisis and transformation of Korean business groups: The rise and fall of Chaebols*. Cambridge, UK: Cambridge University Press.
- Chang, S. J. (Ed.). 2006. *Business groups in East Asia: Financial crisis, restructuring and new growth*. Oxford: Oxford University Press.
- Chang, S. J., & Hong, J. B. 2000. Economic performance of group-affiliated companies in Korea: Intra-group resource sharing and internal business transactions. *Academy of Management Journal*, 43: 429–448.
- Chung, H. M. 2006. Managerial ties, control and deregulation: An investigation of business groups entering the deregulated banking industry in Taiwan. *Asia Pacific Journal of Management*, 23(4): (this issue).
- Coffee, J. 1999. Privatization and corporate governance: The lessons from securities market failure. *Journal of Corporate Law*, 25(1): 1–39.
- Dieleman, M., & Sachs, W. 2006. Oscillating between a relationship-based and a market-based model: The Salim Group. *Asia Pacific Journal of Management*, 23(4): (this issue).
- Evans, P. 1995. *Embedded autonomy: State and industrial transformation*. Princeton, New Jersey: Princeton University Press.
- Ghemawat, P., & Khanna, T. 1998. The nature of diversified business groups: A research design and two case studies. *Journal of Industrial Economics*, 46: 35–61.
- Gomez, E. T., & Jomo, K. S. 1999. *Malaysia's political economy: Politics, patronage and profits*. Cambridge, UK: Cambridge University Press (revised edition).
- Granovetter, M. 1995. Coase revisited: Business groups in the modern economy. *Industrial and Corporate Change*, 4: 93–140.
- Guéhenno, J. M. 1995. *The end of the nation-state*. Minneapolis: University of Minnesota Press.
- Guillen, M. 2001. *The limit of convergence*. Princeton, New Jersey: Princeton University Press.
- International Monetary Fund (IMF) 1999. *IMF-supported programs in Indonesia, Korea and Thailand: A preliminary assessment*. IMF.
- Isobe, I., Makino, S., & Goerzen, A. 2006. Japanese horizontal keiretsu and the performance implications of membership. *Asia Pacific Journal of Management*, 23(4): (this issue).
- Johnson, S., Boone, P., Breach, A., & Friedman, E. 2000. Corporate governance in the Asian financial crisis. *Journal of Financial Economics*, 58: 141–186.
- Kedia, B., Mukherjee, D., & Lahiri, S. 2006. Indian business groups: Evolution and transformation. *Asia Pacific Journal of Management*, 23(4): (this issue).
- Khanna, T., & Wu, D. 1998. *Empresas CAP, 1994*. Harvard Business School Case 9-798-053.
- La Porta, R., Lopez-la-Salianez, 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 group. *Economic Development and Cultural Change*, 26: 661–675.
- Lu, Y., & Yao, J. 2006. Impact of state ownership and control mechanisms on the performance of group affiliated companies in China. *Asia Pacific Journal of Management*, 23(4): (this issue).
- Ma, X., Yao, X., & Xi, Y. 2006. Business group affiliation and firm performance in a transition economy: A focus on ownership voids. *Asia Pacific Journal of Management*, 23(4): (this issue).
- Mayer, C. 1998. Financial systems and corporate governance: A review of the international evidence. *Journal of Institutional and Theoretical Economics*, 154: 144–165.
- McVey, R. 1992. *Southeast Asian capitalism*. Ithaca, NY: Southeast Program, Cornell University.
- North, D. 1990. *Institutions, institutional change, and economic performance*. Cambridge, UK: Cambridge University Press.

- Ohmae, K. 1990. *The borderless world: Power, strategy in the interlinked economy*. New York: Harper Collins.
- Orru, M., Biggart, N., & Hamilton, G. 1997. *The economic organization of East Asian capitalism*. Thousand Oaks, CA: Sage.
- Peng, M. W., Lee, S.-H., & Wang, D. 2005. What determines the scope of the firm over time? A focus on institutional relatedness. *Academy of Management Review*, 30: 622–633.
- Stark, D. 1996. Recombinant property in Eastern Europe capitalism. *American Journal of Sociology*, 101(4): 993–1027.
- Strachan, H. 1976. *Family and other business groups in economic development: The case of Nicaragua*. New York: Praeger.
- White, S. 2004. Stakeholders, structure, and the failure of corporate governance reform initiatives in post-crisis Thailand. *Asia Pacific Journal of Management*, 21: 103–122.
- Whitley, R. 1999. *Divergent capitalisms: The social structuring and change of business systems*. Oxford: Oxford University Press.
- World Bank 1998. *East Asia: Road to recovery*. Washington: World Bank.
- World Bank 2000. *East Asia: Recovery and beyond*. Washington: World Bank.

Sea-Jin Chang is currently Kumho Asiana Group Chaired Professor of Business Administration, Korea University. He received his PhD in management from the Wharton School of the University of Pennsylvania. Previously, he was a faculty member of New York University. He also had visiting appointments at Stanford, INSEAD, and London Business School. Professor Chang is primarily interested in the management of diversified multinational enterprises. His research interests include diversification, corporate restructuring, foreign direct investment organizational learning, corporate growth through joint ventures and acquisitions, and comparative management studies of Japan, Korea and China.