The Hidden Costs of Being Public
Evidence from Multinational Firms operating in Emerging Markets

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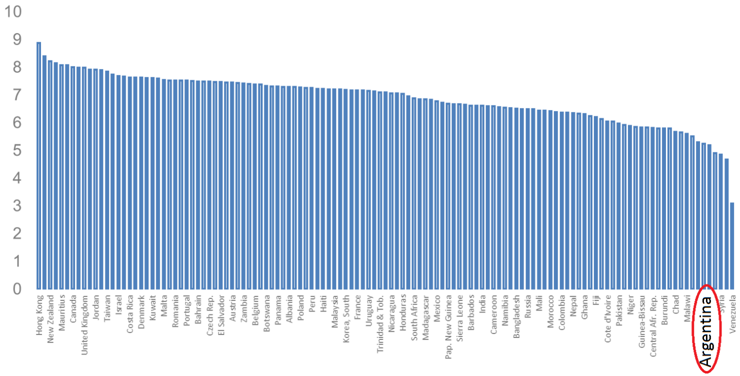
Business in Emerging Markets - Relevance

1. EM account for more than 50% of global GDP (IMF, 2014)
2. EM account for over 70% of global GDP growth (IMF, 2016)

Business in Emerging Markets - Issues

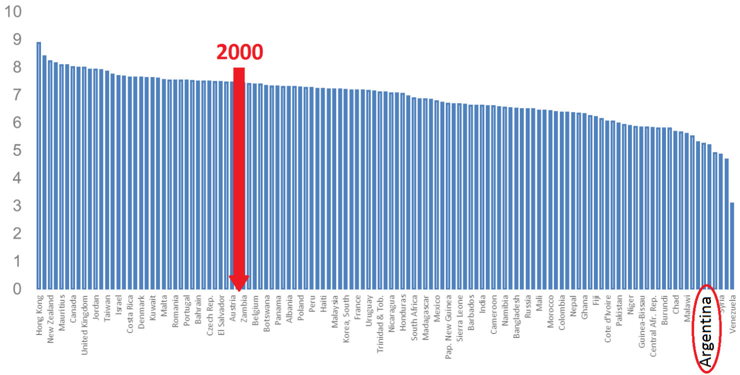
Doing Business in Emerging Markets



Economic Freedom of The World Index (2015)

Business in Emerging Markets - Issues

Doing Business in Emerging Markets



Economic Freedom of The World Index (2015)

Question I

1. What do firms do in response to regulations that limit their operations?

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    - Construct a new measure of compliance with a ban on profits repatriation
    - Use a novel and confidential database to show that my measure provides strong evidence that some firms bypass the ban
    - Show that listing status affects decision to comply with the ban

    Private firms bypass ban and repatriate up to 46% of their profits, while listed firms mostly comply with the ban

Question II

2. Does the ability to bypass regulations create corporate value?

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   - Show that after ban, M&A patterns consistent with value creation
   - Provide suggestive evidence that the results can be extended to other emerging markets and regulatory changes

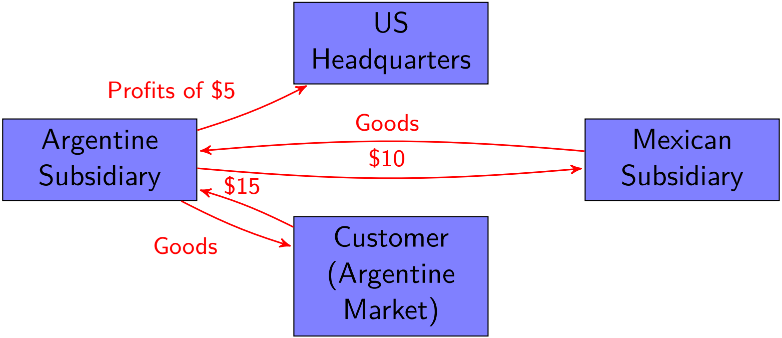
     Less friendly: % tx private firms acquire listed firms increases by 22.8 pp

     More friendly: % tx private firms acquire listed firms decreases by 12 pp

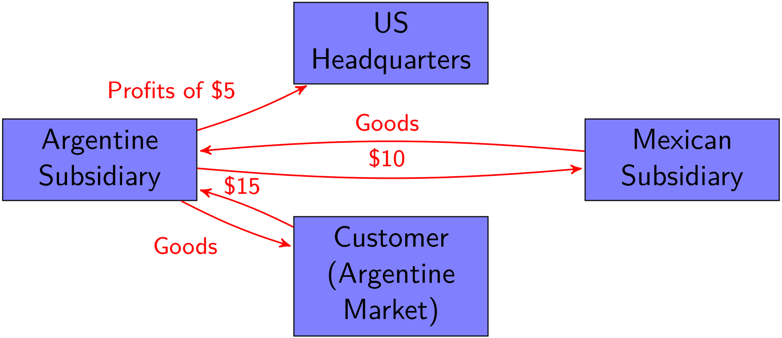
My contribution

1. Show that private firms have more flexibility when operating in emerging markets
2. Show that the value this flexibility creates is large enough as to shape M&A patterns in EM
3. Show that markets respond to reduce impact of regulations on corporate value

The Setting - Before Regulation

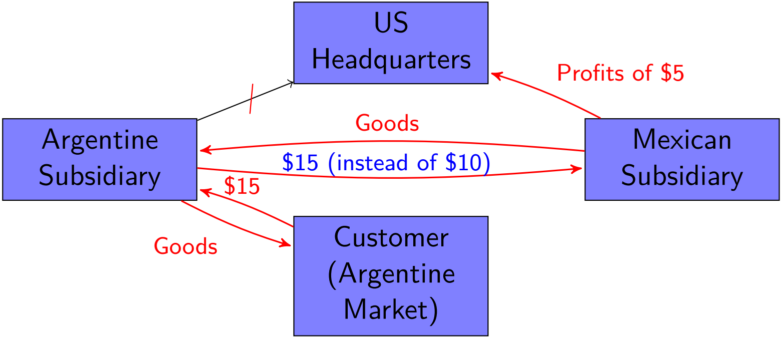


The Setting - Before Regulation

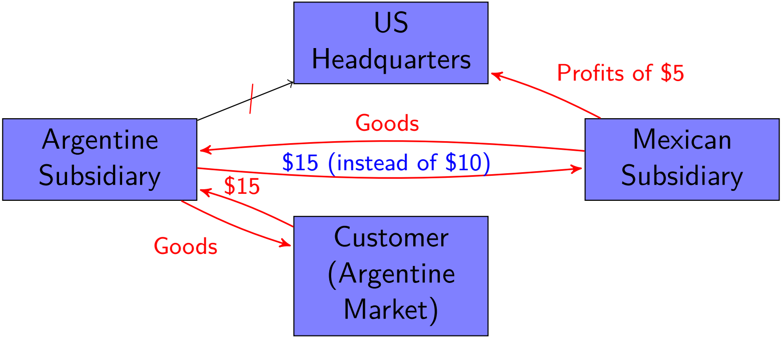


In February 2012, the government banned firms from transferring profits abroad

The Setting - After Regulation

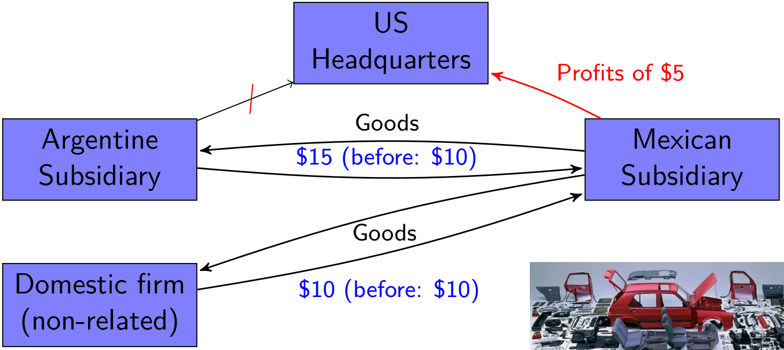


The Setting - After Regulation



What if the price has gone up for other reasons?

The Setting - Counterfactual



Same product number ✓

Same manufacturer ✓

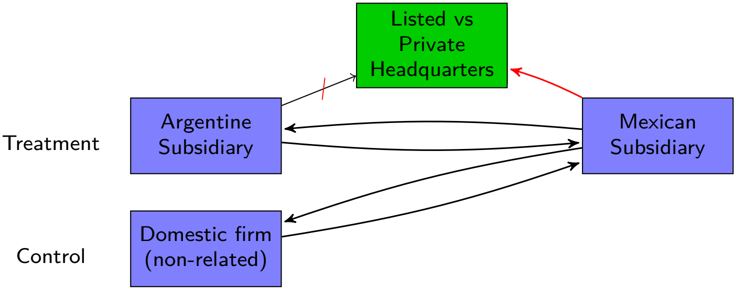
Same country ✓

Empirical Specification

Difference in differences:

$$P_{ijkt} = \alpha_i + \alpha_m + \beta_p \times Post_t + \beta_r \times Related_{jk}$$
$$\beta_{pr} \times Post_t \times Related_{jk} + \epsilon_{ijkt} \quad (1)$$

Where i: Good, j: Importer, k: Exporter, m: Month, and t: Time



Results - Overpricing of Imports

	(1)	(2)	(3)	(4)	(5)
Price	Private firms		Listed firms		Difference (1) - (3)
Post	0.00376	0.00172	0.00861	0.00810	-0.00485
	(0.020)	(0.020)	(0.017)	(0.017)	
Related	-0.0530***	-0.0548***	-0.0889**	-0.0892**	0.0359
	(0.018)	(0.017)	(0.039)	(0.039)	
Post × Related	0.0996***	0.0990***	0.0134	0.0133	0.0862***
	(0.031)	(0.031)	(0.017)	(0.018)	
Product FE	Yes	Yes	Yes	Yes	
Month FE	No	Yes	No	Yes	
N	430,846	430,846	787,591	787,591	

Standard errors in parentheses, clustered at the importer-exporter pair level

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Increase in transfer prices allows firms to repatriate up to 46% of their profits

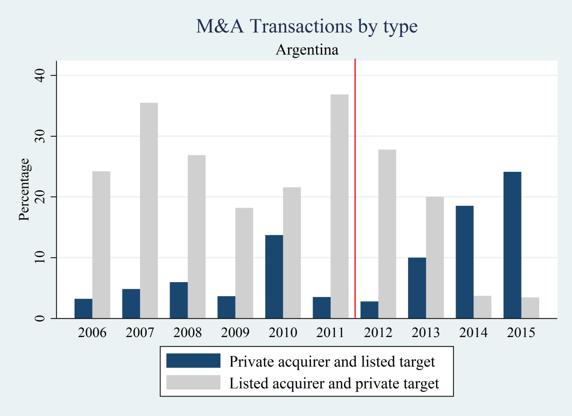
What about...?

1. Size
2. Concentrated Ownership
3. Visibility
4. Tax Minimization
5. Volumes
6. Others...

Roadmap

- Natural experiment in Argentina
- M&A in Argentina
- M&A in emerging markets

Patterns in M&A Transactions



Patterns in M&A Transactions - Further Evidence

$$Sell_{s,l,t} = \alpha + HighExposure_s + Post_t + Listed + HighExposure_s \times Post_t + HighExposure_s \times Listed + Post_t \times Listed + \boxed{HighExposure_s \times Post_t \times Listed} + \epsilon_{s,l,t} \quad (2)$$

	Sell
$HighExposure_s \times Post_t \times Listed$	0.1706**
	(0.07311)
N	288
R-Squared	0.345

Roadmap

- Natural experiment in Argentina
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- M&A in emerging markets

Extending Results to Other Regulations/Emerging Markets

If results can be generalized, changes in the regulatory environment should shape M&A transactions

Panel of 59 emerging markets over 14 years

Regulatory change	Private acquiring listed	Listed acquiring private
More business-unfriendly	$\Uparrow$	$\Downarrow$
Less business-unfriendly	$\Downarrow$	$\Uparrow$

Extending Results to Other Regulations/Emerging Markets

If results can be generalized, changes in the regulatory environment should shape M&A transactions

Panel of 59 emerging markets over 14 years

Regulatory change	Private acquiring listed	Listed acquiring private
More business-unfriendly	$\Uparrow$ 22.8pp	$\Downarrow$ 11.8pp
Less business-unfriendly	$\Downarrow$ 12pp	$\Uparrow$ 5pp

Is it Stricter Auditing and Enforcement Standards?

Firms listed in markets with strict auditing and enforcement standards

Regulatory change	Private acquiring listed	Listed acquiring private
More business-unfriendly	$\Uparrow$	$\Downarrow$
Less business-unfriendly	$\Downarrow$	$\Uparrow$

Firms listed in markets with more lenient auditing and enforcement standards

Regulatory change	Private acquiring listed	Listed acquiring private
More business-unfriendly	=	=
Less business-unfriendly	=	=

Concluding Remarks

1. Show that private firms have more flexibility when operating in emerging markets

   Mitigate regulatory effect by 46%

2. Show that the value this flexibility creates is large enough as to shape M&A patterns in EM

   Less friendly: % tx private firms acquire listed firms increases by 22.8 pp
   More friendly: % tx private firms acquire listed firms decreases by 12 pp

3. Show that markets respond to reduce impact of regulations on corporate value

   Business-unfriendly regulations attract firms that defy them

Thank you!