COUNTRY-SPECIFIC DETERMINANTS OF ASEAN FIRMS CROSS-BORDER MERGERS AND ACQUISITIONS (CBMAs) SUCCESS

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UNIVERSITI SAINS MALAYSIA

2019

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by

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Thesis submitted in fulfilments of the requirements for the degree of Doctor of Philosophy

February 2019

ACKNOWLEDGEMENT

In the name of Allah, the Most Gracious and the Most Merciful;

First and foremost, I would like to express my sincere gratitude to Allah SWT for granting me health, wisdom and perseverance to complete this study. I would like to express my sincere thanks to my main supervisor, Professor Dato' Dr Ruhani Hj Ali for her continuous guidance, inspiration and assistance throughout my study. The expertise and precious time spent for the supervision is much appreciated.

I am equally indebted to my co-supervisor, Dr Chu Ei Yet for his most valuable comments and suggestions for improving my works. I also thank the Graduate School of Business, USM and all the staff for the assistance during my candidature. My appreciation also goes to the Ministry of Education Malaysia and Universiti Teknologi MARA (UiTM) for granting me the scholarship and study leave to pursue my study.

Finally, I would like to give my special thanks to my husband, Mohd Ikram bin Abdul Rasib, my daughter, Hannah Imani, my parents, Mat Rahim bin Hussin and Siti Zabidah binti Daud, my parents-in-law, Abdul Rasib bin Mohamad and Paridah binti Abu Bakar and all family members for their endless love and unconditional support throughout the study. Their prayers have greatly facilitated to end this journey successfully.

Thank you very much.

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LIST OF ABBREVIATION

CBMA	Cross-border Merger and Acquisition
M&A	Merger and Acquisition
ASEAN	Association of Southeast Asian Nations
WGI	World Governance Indicators
CGI	Country-level corporate Governance Index

PENENTU KHUSUS NEGARA BAGI KEJAYAAN PENGGABUNGAN DAN PENGAMBILALIHAN RENTAS SEMPADAN (CBMAs) OLEH FIRMA ASEAN

ABSTRAK

Penggabungan dan pengambilalihan rentas sempadan (CBMA) dianggap pilihan mod mengantarabangsakan dengan keutamaan yang tinggi pada CBMA oleh firma-firma, khususnya dari negara anggota ASEAN. Walau bagaimanapun, isu kejayaan CBMA timbul disebabkan oleh kegagalan urus niaga yang tinggi dan penciptaan tanpa nilai oleh firma yang terlibat dengan CBMA. Keadaan ini mendorong kepada keperluan mengkaji penentu kejayaan CBMA. Ciri utama CBMA, iaitu urus niaga rentas negara boleh menjejaskan kejayaan CBMA disebabkan oleh ciri-ciri khusus sesebuah negara. Maka, kajian ini memilih untuk menumpukan perhatian kepada faktor-faktor khusus negara (iaitu tadbir urus korporat peringkat negara, ketidaktentuan kadar pertukaran, jarak budaya, jarak geografi dan tahap pembangunan ekonomi) sebagai penentu kejayaan CBMA. Kajian terhadap 246 CBMA yang melibatkan firma sasaran dan 348 CBMA firma pembida dari negara-negara anggota ASEAN mendedahkan kadar kejayaan CBMA bagi firma sasaran ASEAN adalah lebih tinggi berbanding firma pembida ASEAN. Prestasi berasaskan pasaran jangka panjang (Tobin's Q) firma sasaran ASEAN bertambah baik selepas CBMA, manakala untuk firma pembida ASEAN, prestasi tersebut merosot. Bukti yang diperoleh dari analisa regresi adalah muktamad; bagi firma ASEAN, tadbir urus korporat peringkat negara boleh menjejaskan kejayaan CBMA. Pengambilalihan firma sasaran ASEAN oleh firma permbida dari negara yang mempunyai standard tadbir urus korporat yang lebih rendah boleh merisikokan kejayaan CBMA kesan daripada limpahan negatif. Sementara itu, bagi firma

pembida ASEAN, kemungkinan kejayaan CBMA meningkat melalui limpahan positif dengan syarat jurang tadbir urus adalah besar dan penyertaan pemilikan tidak terlalu tinggi. Tambahan pula, firma pembida ASEAN boleh meraih manfaat daripada *bootstrapping* dan juga meningkatkan kebarangkalian kejayaan CBMA dengan menggunakan saham sebagai pembayaran pembelian. Di samping itu, CBMA yang dijalankan dalam tempoh kadar pertukaran yang tidak menentu mampu meningkatkan kemungkinan kejayaan CBMA firma sasaran ASEAN. Sejajar dengan teori identiti sosial, jarak budaya yang luas antara firma pembida ASEAN dan firma sasarannya akan merendahkan peluang kejayaan CBMA. Terdapat bukti yang muktamad bahawa jarak fizikal antara negara firma sasaran dan pembida tidak memberi sebarang kesan yang signifikan terhadap kejayaan CBMA bagi kedua-dua firma sasaran dan pembida ASEAN. Akhir sekali, jika firma sasaran ASEAN diambilalih oleh firma pembida dari negara yang mempunyai tahap pembangunan ekonomi yang berbeza, nilai akan dicipta melalui gabungan sumber kedua-dua negara yang unik dan tidak dapat ditiru selaras dengan teori pandangan berdasarkan sumber. Implikasi theory utama oleh kajian ini adalah meluaskan hipotesis limpahan tadbir urus korporat dengan menonjolkan kepentingan jurang tadbir urus.

COUNTRY-SPECIFIC DETERMINANTS OF ASEAN FIRMS CROSS-BORDER MERGERS AND ACQUISITIONS (CBMAs) SUCCESS

ABSTRACT

Cross-border mergers and acquisitions (CBMAs) are deemed the preferred internationalisation mode with a high preference towards CBMAs by firms, particularly from the ASEAN member countries. Nevertheless, the issue of CBMA success emerges due to high deal failure and non-value creation by firms involved in CBMAs. Thus, it impelled the needs to examine the determinants of CBMA success. The main characteristic of CBMA which is cross-country transaction could risk CBMA success due to country characteristics. Hence, this study chose to focus on the country-specific factors (i.e. country-level corporate governance, exchange rate volatility, cultural distance, geographic distance, and the level of economic development) as determinants of a CBMA success. The scrutinisation of 246 CBMAs involving ASEAN target firms and 348 CBMAs comprising ASEAN bidding firms reveals that the CBMA success rate of ASEAN target firms is slightly higher than ASEAN bidding firms. The long-term market-based performance (Tobin's Q) of ASEAN target firms improved following CBMA whereas for ASEAN bidding firms, the performance deteriorated. The result from multiple regression analysis was conclusive; country-level corporate governance could affect the success of CBMA for ASEAN firms. The acquisition of ASEAN target firm by a bidder from a country with inferior corporate governance standard could risk the CBMA success due to the negative spillover. Meanwhile, for ASEAN bidder, the possibility of CBMA success increases through positive spillover provided that the governance gap is large and the ownership participation is not too high. Additionally, ASEAN bidder could benefit from bootstrapping and also increase the possibility of CBMA success

by using shares as purchase consideration. Besides, CBMA conducted during the period of volatile exchange rate could increase the possibility of CBMA success for ASEAN target firms. Consistent with social identity theory, a large cultural distance between the ASEAN bidder and its target could result in a lower chance of CBMA success. There is conclusive evidence that the physical distance between the target and bidding country do not have any significant effect on the CBMA success for both ASEAN target and bidder firms. Finally, if the ASEAN target firms were acquired by a bidder from a country with a different level of economic development, the value is created from the pool of resources from both countries, which is unique and inimitable as per resource-based view theory. The main theoretical implication of this study is extending the corporate governance spillover hypothesis by highlighting the significance of the governance gap.

CHAPTER 1

INTRODUCTION

1.1 Background of Study

Cross-border mergers and acquisitions (CBMAs) is a popular choice for a firm's external growth strategy. Similar to domestic mergers and acquisition (M&A), CBMA occurs when the buyers (bidding firms) acquire the assets or controlling interest of the sellers (target firms). However, CBMAs are transactions in which the bidder and target firms are residing in two different countries. Among the motivations for the bidding firm to acquire a target from a foreign country is to increase its market share by expanding the distribution channel to other countries. In addition, CBMA allows the bidding firm to internalise the target's competitive advantages. Thus, CBMA has become a source of value creation for the combined firms.

Due to the attractiveness of CBMAs in creating value for the firms involved, bidding firms are willing to spend a substantial amount of fund to finance the acquisition of a target firm. The primary attribute of CBMA, which is the country differences, escalate the cost of acquisition. This is due to the fact that a transaction between two different countries is subject to challenges such as information asymmetries because of the imperfection in the capital market. Thus, the increase in the acquisition cost will pose a great challenge to the value creation, hence the CBMA success. Despite the challenges in acquiring a target firm from a foreign country, CBMA is deemed the preferred mode of internationalisation, as proven by the statistic in the World Investment Report 2015 (UNCTAD, 2015).

CBMAs, with an increment of 28% in the year 2014, has regained its popularity as the preferred mode for international investment valuing at almost USD 400 billion (UNCTAD, 2015), after experiencing a decline for two consecutive years as depicted in Figure 1.1. Additionally, UNCTAD (2015) also reported that the increase in CBMA sales value in the year 2014 was contributed by an upsurge in the developing economies CBMA sales at 52% as compared to an increased in the developed countries CBMA sales (16%). It is also interesting to note that the increase in CBMA purchase of developing countries is equivalent to the increase in developed economies CBMA purchase, which is 27%.

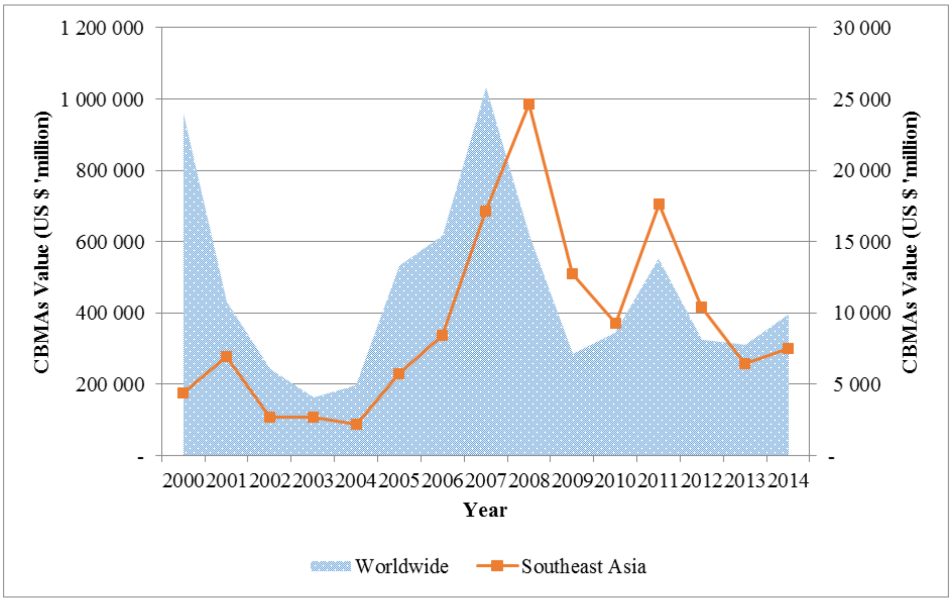

Figure 1.1 CBMA value by year
Source: World Investment Report 2015

Figure 1.2 clearly indicates that the largest share of CBMA sales value from developing economies is contributed by the Asian countries (74%) followed by Latin America and the Caribbean (21%), and Africa (4%). Similarly, the largest share of CBMA purchase value from developing economies is also contributed by the Asian countries (90%) followed by Latin America and the Caribbean (6%), and Africa

(4%), as portrayed in Figure 1.3. The statistics are consistent with the contention made by Jongwanich, Brooks, and Kohpaiboon (2013) that CBMAs from developing economies were mostly originated from the Asian region.

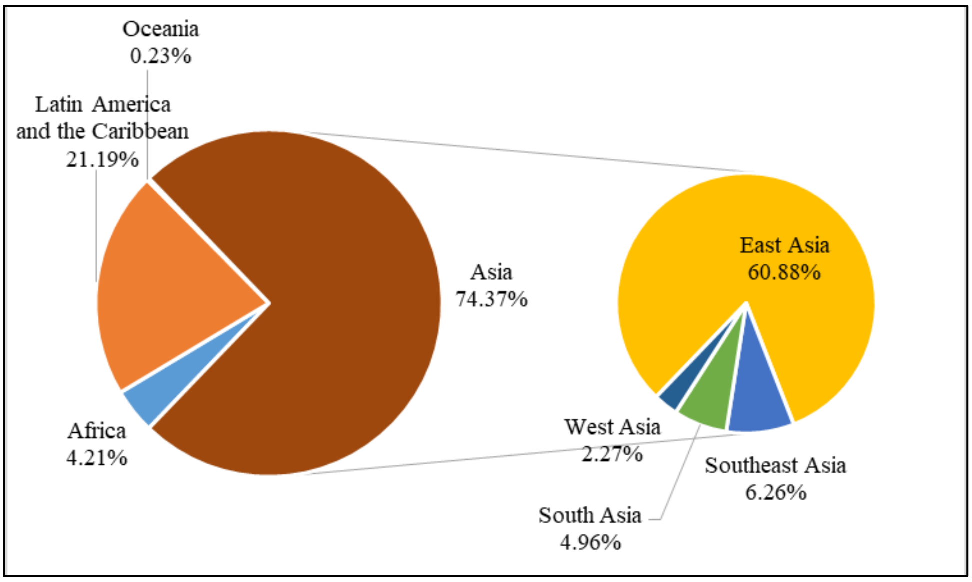

Figure 1.2 Percentage of CBMA sales value by developing region in the year 2014
Source: World Investment Report 2015

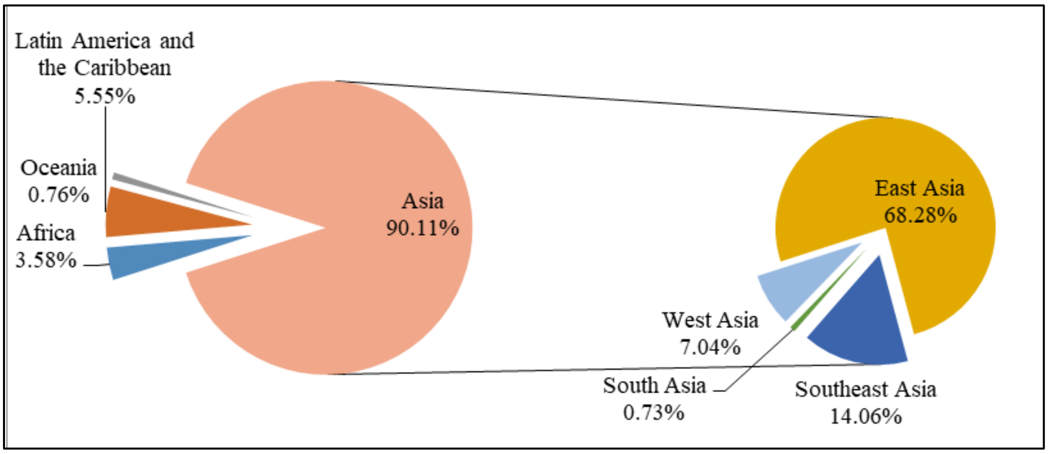

Figure 1.3 Percentage of CBMA purchase value by developing region in the year 2014
Source: World Investment Report 2015

Additionally, Figure 1.2 and Figure 1.3 also indicate that the East Asian countries are the main contributor of CBMA sales and purchase in the Asian nation with more than half of CBMAs in this region are from the East Asian countries. With China being a major part of the East Asian region, it is not surprising that the East Asian countries dominated CBMAs in Asia because China currently has overtaken Japan as the world second largest stock market (Johnson, 2014). With a 6% share of the Asian nation's CBMA sales, the firms from the countries of Association Southeast Asian Nation (afterwards addressed as ASEAN) recorded an increase of 17%, to USD 7.5 billion for CBMA after experiencing a decrease for two consecutive years, which is consistent with the worldwide CBMA trend (Figure 1.1). Similarly, CBMA purchase also recorded an increase for five consecutive years. This increase supports the argument made by Metwalli and Tang (2009) that CBMA involving ASEAN countries would experience expansion as a result of numerous bilateral and regional free trade agreements in this region.

Furthermore, the upsurging of CBMAs involving ASEAN countries is also contributed by the regional integration through the establishment of ASEAN Economic Community (AEC) (The ASEAN Secretariat & UNCTAD, 2015). This is because one of the objectives of the AEC Blueprint (2015) is to attract foreign direct investment (FDI) and to sustain the flow of new investment and reinvestment (The ASEAN Secretariat, 2008). As a result, ASEAN Comprehensive Investment Agreement (ACIA) was introduced, which contributed to a better investment climate in the region and ultimately resulted in the increase of CBMAs (both sales and purchase) in the ASEAN region.

1.2 Problem Statement

With the perpetual preference of using CBMA as an external growth strategy, the worldwide merger and acquisition (M&A) deal failure in the year 2014 was upsetting as it reaches the highest level since 2008 (Massoudi, 2014). Figure 1.4 shows that the percentage of completed M&A deals worldwide was on a declining trend. In addition, data by Thomson One Banker indicate that in the year 2015, the highest CBMAs deals failure were from the Asia Pacific region with only 51% of the deals were completed (Table 1.1).

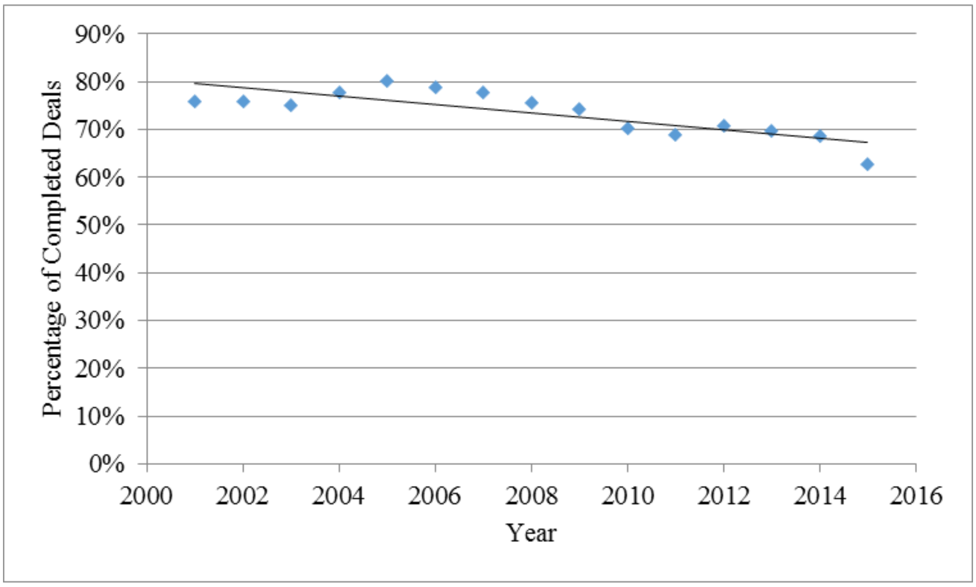

Figure 1.4 Percentage of completed M&A deals by year
Source: Thomson One Banker

Table 1.1 The percentage of completed number of deals by bidder primary nation region

Bidder Primary Nation Region	Number of Deals Announced	Number of Deals Completed	% of Completed Deals
Americas	13,148	11,173	85%
Asia-Pacific (ex-Central Asia)	11,063	5,628	51%
Europe	14,248	12,054	85%
Japan	2,576	1,655	64%
Africa/ Middle East/ Central Asia	1,065	732	69%

Source: Thomson One Banker (2016)

The fact that one-third of M&A activity in the Asia Pacific region for the first half of the year 2014 took place in ASEAN (Yang, 2014), the M&A failure was also experienced by ASEAN firms as numerous CBMA deals involving ASEAN firms were withdrawn. Table 1.2 shows the list of top ten failed CBMAs involving ASEAN firms according to the value of transaction that was withdrawn. For instance, a deal worth USD 8.3 billion between Singapore Exchange Ltd (SGX) and ASX Ltd (ASX) was withdrawn in 2010. While in 2014, a Thailand's firm, Thai Union Frozen PLC withdrew its agreement to acquire the entire share capital of Bumble Bee Foods LLC that was worth USD 1.5 billion.

Table 1.2 List of withdrawn CBMAs involving ASEAN firms

Date Announced	Bidder Name	Bidder Nation	Target Name	Target Nation	Value of Transaction ($mil)
25/10/2010	Singapore Exchange Ltd	Singapore	ASX Ltd	Australia	8,304.69
2/4/2012	DBS Group Holdings Ltd	Singapore	Bank Danamon Tbk PT	Indonesia	4,970.47
2/5/2007	Rowsley Ltd	Singapore	Perfect Field Investment Inc	China	3,481.06
15/11/2012	Kirin Holdings Co Ltd	Japan	Fraser & Neave-Food & Beverage	Singapore	2,207.51
2/9/2003	Investor Group	Malaysia	Loy Yang Power Plant & Coal	Australia	2,203.50
19/12/2014	Thai Union Frozen Products PCL	Thailand	Bumble Bee Foods LLC	United States	1,510.00
29/4/2010	China Pipe Group Ltd	Hong Kong	Dynamic Event Ltd	Indonesia	1,377.85
2/9/2007	Investor Group	Singapore	China Estn Airlines Corp Ltd	China	923.83
7/8/2014	Berli Jucker PCL	Thailand	Metro Cash & Carry Vietnam Co	Vietnam	875.20
27/1/2012	United Fiber System Ltd	Singapore	Golden Energy Mines Tbk PT	Indonesia	845.15

Source: Thomson One Banker (2016)

In addition, Froese (2010) revealed that more than 50% of CBMA failed to create value. Deal failure would result in the adversarial impact on both the firms (target or bidder) and the country as a whole. Hence, Massoudi (2014) claimed that the equity capital market would adversely react following M&A deal failure. Case in point, PT

Bank Danamon, a target bank from Indonesia (an ASEAN member country) reported a 14% decline in its share price following an M&A deal failure with DBS Group Holdings (bidder) from Singapore (Suhartono & Chatterjee, 2013). Obviously, M&A deal failure is detrimental to the financial health, especially for the target firm. Moreover, the failure of M&A deal would also slacken a country's economic development as per the study by Appadu, Faelten, Moeller, and Vitkova (2014) and (Smimou, 2015), who asserted that M&A contributed to the economic development. The impact would be even greater for the ASEAN economies since a large portion of CBMAs involved the ASEAN countries as numerous withdrawn CBMAs worth billions of USD was recorded (Table 1.2).

The alarming rate of M&A failure and the contribution of CBMA success towards economic development has led to the publication of a considerable amount of literature on the determinants of CBMA success. A successful deal is not only reflected by the completion of the deal but also when the deal generates value for the firm. The previous research works normally examined the shareholders' value creation before they explored the determinants as measures for the CBMA success. Numerous earlier literature (Aybar & Thanakijsombat, 2015; Bae, Chang, & Kim, 2013; Bhagat, Malhotra, & Zhu, 2011; Dang & Henry, 2015; Du & Boateng, 2015; Faelten, Gietzmann, & Vitkova, 2014; Jory & Ngo, 2011; Martynova & Renneboog, 2008; Masulis, Wang, & Xie, 2012; Ning, Kuo, Strange, & Wang, 2014; Rani, Yadav, & Jain, 2014b; Sharma & Raat, 2015; Smimou, 2015; Starks & Wei, 2013; Wu, Yang, Yang, & Lei, 2016; M. Yang, 2015) focused on the short-term wealth effect of the shareholders (target or bidder) by examining the abnormal return surrounding the announcement date of CBMAs. Thus far, the firm's long-term market-based performance as a measure for CBMA success was allotted little attention (Basuil, 2011; Chakrabarti, Gupta-mukherjee, & Jayaraman, 2009; Dutta, Saadi, & Zhu, 2013; Faelten et al., 2014; Kedia & Reddy, 2015; Song, Kueh, Abdul Rahman, & Chu, 2010b). Therefore, more research is required to better understand the firm's long-term market-based performance as an indicator of the CBMA success.

With regard to the determinants of CBMA success, many factors have been examined such as firm-specific factors, deal characteristic factors, and country-specific factors. Recently, there is a considerable amount of literature on the role of country-specific factors as the determinants of post-CBMAs firms' performance. For CBMA, country-specific factors are more prevalent in explaining the variation in value creation. This is because there are risks associated with cross-border transaction such as governance difference, cultural difference, and geographic distance as highlighted by Koerniadi, Krishnamurti, and Tourani-Rad (2015) and Lobo, Paugam, and Stolowy (2015). Danbolt and Maciver (2012) claimed that CBMA is riskier than domestic M&A with a greater potential of valuation error, especially when there is volatility in the exchange rate, which is also a country-specific factor. Additionally, Caiazza and Pozzolo (2016) asserted that a country's economic development level affect the efficiency of the market for corporate control. Chang, Choi, and Huang (2015) stressed that country-specific factors are an important element in explaining the CBMA outcomes (such as whether CBMA is successful or unsuccessful). Therefore, it is interesting to extend the existing evidence by assessing the impact of country-specific factors as determinant of CBMA success.

Other than the risk associated with cross-border transaction, examining the country-specific factors impact on CBMA success is crucial for CBMA involving emerging market such as ASEAN countries. This is due to the features of emerging market such as less establish institutional environment (Boubakri, Cosset, & Guedhami, 2005; Grigorieva & Petrunina, 2015), greater cultural differences (Smimou, 2015), unstable political environment (Yen, Chou, & André, 2013), and poor corporate governance (Lebedev, Peng, Xie, & Stevens, 2015; Yen et al., 2013). All these features may result in high information asymmetry and escalate the CBMA's transaction cost (for due diligence process and post-CBMA integration) of emerging countries (Lebedev et al., 2015).

This issue is even more severe in ASEAN countries. According to Yokotaki and Kashijuku (2015), the difficulty percentage of getting reliable information from ASEAN countries is the highest (27%), surpassing India (17%) or China (14%), thus, explaining the numerous deal failures involving ASEAN firms as stipulated in Table 1.2. Despite the importance of country-specific factors in explaining CBMA success, there remains a scarcity of evidence in this area. Therefore, examining the impact of country-specific factors as the determinant of CBMA success for ASEAN firms would address the lack of research in this particular domain.

Thus far, only a few studies (Bhagat et al., 2011; Martynova & Renneboog, 2008; Thenmozhi & Narayanan, 2016) examined country-specific corporate governance as a source of synergy that resulted in CBMA success. Grounded in corporate governance spillover, the studies indicated that the difference in corporate governance between the target and bidding firm's countries is a channel to generate value during CBMAs. The value generation stems from the spillover of a better corporate governance standard from the bidder to the target firm, which resulted in the improvement of the target firm's corporate governance standard (positive spillover hypothesis) or from the bidder's improvement in its corporate governance standard by bootstrapping itself to the target's better corporate governance standard (bootstrapping hypothesis).

Martynova and Renneboog (2008) also claimed that there is an upward trend of CBMA transactions in which the bidding firms are from countries with weak corporate governance and the target firms are from countries with strong corporate governance, thus adhering to the bootstrapping hypothesis. A similar pattern was also observed in ASEAN CBMAs. Bhagat et al. (2011) reported that for the bidding firms from ASEAN member countries (Malaysia and Philippines), the majority of their top targets firms were from developed countries with a higher governance score. Additionally, for the target firms from ASEAN member countries, the majority of their top bidders were from developed countries with a higher governance score (Song et al., 2010b). Therefore, these findings imply the probable contribution of country-level corporate governance in ensuring CBMA success among the ASEAN firms.

With a high M&A failure rate in the Asia-Pacific region, a study on the role of country-level corporate governance in ensuring the CBMA success for ASEAN firms will shed light on how this country-specific factor contribute to the positive outcome. In fact, Carline, Linn and Yadav (2009) claimed that less attention was given to the direct impact of corporate governance on the post-merger operating performance. Even though the study by Martynova and Renneboog (2008) presented evidence on the governance spillover for the European countries, the vagueness of governance spillover effect on emerging market such as ASEAN countries still exists. Furthermore, Claessens and Yurtoglu (2013) highlighted that studies on corporate governance in emerging market were mostly conducted at the firm-level, which focused on the role of corporate governance in matters related to financing, the cost of capital, valuation, and performance. There are very few studies on emerging market that focused on the role of country-level corporate governance in CBMAs (Bhagat et al., 2011). Additionally, Claessens and Yurtoglu (2013) recognised the importance of the internationalisation impact on corporate governance improvement through corporate governance convergence. The authors also stated that little is known about the mechanism that could drive corporate governance convergence such as CBMAs.

Additionally, Martynova and Renneboog (2008) claimed that the share payment and low ownership participation (less than 100% ownership) could result in a stronger bootstrapping valuation effect. They asserted that the acceptance of shares by the target shareholders would lead to resistance in adopting the bidder poor governance standard and the ownership participation of less than 100% would allow the target to be listed on its' country stock exchange. Both situations could increase the possibility of bootstrapping occurrence. Furthermore, the high ownership participation and payment other than share would also facilitate the execution of market for corporate through positive spillover due to high voting power and the absence of resistance from target shareholders, respectively. Therefore, these two deal characteristic factors (share payment and ownership participation) could moderate the relationship between country-level corporate governance and the CBMA success.

Beside country-level corporate governance, the exchange rate is also an important country-specific factor in explaining the success of a CBMA involving ASEAN firms. This is due to the fact that it is more difficult to value the target in foreign market than domestic market when there is high exchange rate volatility and hence could result in valuation error (Danbolt & Maciver, 2012); Brown (2016) claimed that volatility of ASEAN countries exchange rate has become a great challenge for investors who seek to invest in ASEAN countries. A valuation error would be detrimental to the success of a CBMA deal. In other words, this fact denotes that the exchange rate volatility could decidedly affect the success of CBMA deals involving ASEAN firms.

However, there are debates whether exchange rate could positively affect CBMA success (Boateng, Hua, Uddin, & Du, 2014; Gregory & O'Donohoe, 2014; Harris & Ravenscraft, 1991; Starks & Wei, 2013) or leave no significant impact on the success of CBMAs (Cakici, Hessel, & Tandon, 1996; Danbolt & Maciver, 2012; Georgopoulos, 2008; Jongwanich et al., 2013). Furthermore, except for a study by Jongwanich et al. (2013), the uncertainness of the exchange rate role for the CBMA success in emerging market (such as ASEAN) still exist because the previous studies focused on developed countries (such as the United States and the United Kingdom). Thus, a study on the role of a country's exchange rate in CBMA success will highlight the contribution of another country-specific factor (exchange rate) in ensuring the success of CBMA.

Other than the exchange rate volatility, risk associated with cross-border transaction also stems from cultural differences (Koerniadi et al., 2015; Lobo et al., 2015) and cultural differences are more prevalent in emerging countries (Smimou, 2015) such as ASEAN countries. Cultural differences increase the risk of unsuccessful CBMA by complicating the post-CBMA integration process (Cartwright & Cooper, 1995; Duncan & Mtar, 2006) and causing a high information asymmetry (Dutta et al., 2013). Yokotaki and Kashijuku (2015) claimed that the post-CBMA integration is crucial for the success of a CBMA deal. Thus, it is essential to examine whether or not cultural differences are the deterrent factor of CBMA success involving ASEAN countries.

Another important source of risk associated with the cross-border transaction is geographic distance (Koerniadi et al., 2015; Lobo et al., 2015). Among the reasons for the adverse impact of geographic distance are immense monitoring cost (Jongwanich et al., 2013), high information asymmetry (Dutta et al., 2013; Punurai, 2014), and low level of trust between the two parties involved (Martynova & Renneboog, 2008). The adverse impacts of geographic distance decrease the probability of CBMA success. A small geographic distance is crucial for the success of CBMA deals, especially for ASEAN firms as the small geographic distance will promote CBMA within the ASEAN region (The ASEAN Secretariat & UNCTAD, 2015). Hence, the investigation on the role of geographic distance in ensuring a CBMA success is crucial for the ASEAN firms.

Last but not least, since the majority of ASEAN member countries are classified as emerging economy, there is a high risk of an inefficient market for corporate control that could lead to CBMA failure (Caiazza & Pozzolo, 2016). Accordingly, it is crucial for a CBMA transaction involving ASEAN firms to acquire or being acquired by firms from a developed country. Therefore, it is vital to examine how the involvement of firms from different countries development level in ASEAN CBMA could affect the probability of CBMA success. Hence, this study aims at examining the role of country-specific factors as the determinants of CBMA success.

1.3 Objectives of Study

The main objective of this study is to investigate the role of country-specific factors as the determinants of CBMA success whilst the three specific objectives are:

1. To examine the success of ASEAN firms' CBMA
2. To investigate the role of country-specific factors in ASEAN firms' CBMA success
3. To determine whether the relationship between country-specific factor (country-level corporate governance) and ASEAN firms' CBMA success contingent upon the deal characteristic factors (ownership participation and share payment)

1.4 Research Questions

This study aims to answer the following research questions:

1. Do CBMAs involving ASEAN firms are successful CBMA?
2. Are country-specific factors vital to the CBMA success that involves ASEAN firms?

3. Is the relationship between the country-specific factor (country-level corporate governance) and ASEAN firms' CBMA success contingent on the deal characteristic factors (share payment and ownership participation)?

1.5 Significance of Study

This study made two essential original contributions, namely to the CBMA literature (theoretical contributions) and to the practitioners who are directly involved in the CBMA (practical contributions) event.

1.5.1 Theoretical contributions

Theoretically, this study offered valuable insight as to whether the CBMAs undertaken by firms from ASEAN as either target or bidder is grounded on shareholder wealth maximisation theory or non-value maximisation theory. This is because the examination of CBMA success proxies by the changes in the firms' performance indicated whether or not there is value creation as a result of the CBMA. The improvement in the firms' performance following CBMA indicated a value creation, consistent with the shareholder wealth maximisation theory. In contrast, deterioration in the firms' performance following CBMA indicated an absence of value creation as per non-value maximisation theory.

In addition, this study offered a new insight into the existing research, which mainly focused on the firm-specific factors (size, type of business, top management characteristic, ownership, firm age) and deal characteristic factors (transaction size, relatedness, methods of payment, target public status). This study provided an exciting opportunity to advance our knowledge of how the country-level factors, such as country-level corporate governance standard, exchange rate, cultural distance, geographic distance, and level of economic development act as the channels to influence the success of CBMAs.

Furthermore, a study that focuses on the country-level corporate governance standard provided a more definitive answer whether an acquisition by firms from two countries with different corporate governance standard could collaborate and ultimately lead to CBMA success. This study was built upon the growing literature of corporate governance spillover hypothesis proposed by Martynova and Renneboog (2008) that CBMAs create value by improving either the target or bidder corporate governance standard. The study ascertained whether this hypothesis is relevant in the emerging market environment such as ASEAN member countries. Additionally, the examination of two deal characteristic factors (ownership participation and share payment) as moderator in corporate governance hypothesis shed a new insight on how the spillover of corporate governance effect on the success of the CBMA could be strengthen or weaken. Additionally, a positive effect of corporate governance spillover indicates that it is a source of synergy under shareholder wealth maximisation theory.

This study also highlighted the importance of other country-specific factors (exchange rate, cultural distance, geographic distance, level of economic development) in determining the success of CBMA, especially in emerging market environment such as the ASEAN countries. The reason for this is because on top of the risks related to cross-border deals, the features of emerging market (high information asymmetry, a less establish corporate governance) would also be detrimental to the success of CBMA involving ASEAN firms. Thus, this study complemented the current CBMA literature, which mostly involved studies in developed countries.

1.5.2 Practical contributions

From a practitioner point of view, this study provided an important opportunity for the management of a firm to comprehend better on how a firm from a country with poor corporate governance standard is able to create value and successfully acquire a firm from a country with better corporate governance standard. The study highlights the appropriate corporate governance gap for the bidder to bootstrap itself to a higher corporate governance standard of the target's country. Thus, enabling the management of the firm to assess the readiness of a firm from a country with poor corporate governance standard to acquire a firm from a country with a better corporate governance standard.

Furthermore, it is crucial to improve the attractiveness of ASEAN member countries as a platform for global investment, as highlighted in the ASEAN Economic Community (AEC) Blueprint 2025 (The ASEAN Secretariat, 2015). Thus, from the policymakers' point of view, certain measures are required to maintain some level of the country corporate governance standard. This circumstance will attract CBMAs investment and improve the probability of CBMAs success. This study is vital, especially in determining the minimum level of country-corporate governance required for the spillover of corporate governance to materialise, which will lead to a successful CBMA.

1.6 Scope of Study

This study focuses on cross-border mergers and acquisition (CBMAs), thus, domestic M&A will be excluded. The sample of this study will be specifically drawn from the CBMA transactions involving either ASEAN target or ASEAN bidding firms that are public listed companies.

1.7 Definition of Key Terms

1.7.1 Cross-border mergers and acquisitions (CBMAs)

Cross-border mergers and acquisitions (CBMAs) is simply defined by Changqi and Ningling (2010) as an acquisition of asset or shares of a firm located in foreign countries. CBMA also means that the two firms belong to two different nations or home countries (Reddy, 2015) and economies (Chen & Findlay, 2003). CBMA is also viewed as a mode of foreign direct investment (Ahouansou, 2010; Alba, Park, & Wang, 2009; Hopkins, 1999; Mody & Negishi, 2000; Nicolas, Santis, & Aviat, 2009; M. Wang & Wong, 2009; M. Yang, 2015; Zhu & Jog, 2012) as well as a greenfield investment in foreign countries. In this study, the term "CBMA" indicates a transaction involving the acquisition of net asset or shares between two firms from two different countries. Following the acquisition, both target and bidder still exist.

1.7.2 Bidding firm

The term bidding firm in this study refers to the buyer or acquirer firm (Whitaker, 2016) and also the party who paid for the CBMA.

1.7.3 Target firm

The target firm in this study denotes the seller or acquired firm (Whitaker, 2016) that received the consideration paid by the bidding firm.

1.7.4 ASEAN

The term ASEAN means the Association of Southeast Asian Nations, which was established on August 8, 1967 in Bangkok, Thailand. Initially, there were five ASEAN member countries, namely Indonesia, Malaysia, Philippines, Singapore, and Thailand (The ASEAN Secretariat, 2016). Subsequently, five other countries joined the establishment, which brought the total number of members to ten. These five countries are Brunei (1984), Vietnam (1995), Laos (1997), Myanmar (1997), and Cambodia (1999). However, in this study, only six ASEAN member countries (Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam) is studied due to their active participation in CBMA compared to the other ASEAN member countries.

1.7.5 CBMA Success

In this study, a CBMA transaction is considered as a successful CBMA when it met two criteria. First, the CBMA transaction is completed. Second, the CBMA transaction created value for the firms (either the target or bidding firm) through the firm's performance improvement following CBMA as opposed to before CBMA.

1.7.6 Country-specific factors

Country-specific factors indicate factors related to a country characteristic of either the target or bidding firms. Specifically, in this study, country-specific factors refer to the country-level corporate governance, exchange rate volatility, cultural distance, geographic distance, and the level of economic development.

The country-level corporate governance is defined as the level of corporate governance standard of country based on Country's Governance indicator which is extracted from World Governance Indicator (WGI) Index. This index was developed by Kaufmann, Kraay, and Mastruzzi (2011).

In this study, exchange rate volatility refers to the degree of variation of bidding country currency relative to the target country. Meanwhile, cultural distance is defined as the difference in culture between bidding country and target country. Geographic distance refers to the physical distance between bidding country and target country. Lastly, the level of economic development refers to the country classification based on FTSE country classification.

1.7.7 Deal characteristic factors

Deal characteristic factors refer to factors related to the characteristic of CBMA deal itself. For instance, in this study, the deal characteristic factors encompass the method of payment, ownership participation, transaction size, advisors, and relatedness.

Method of payment refers to the consideration used by the bidding firms to pay for the acquisition. Ownership participation is the percentage of shares owned by the bidding firm in the target firm following CBMA transaction. Transaction size refers to the size of the acquisition. Advisor is defined as whether the bidding firms appointed any advisors for the CBMA transaction. Lastly, relatedness indicate whether a CBMA transaction occur between firms from related industry or vice versa.

1.7.8 Firm-specific factors

Firm-specific factors refer to factors related to the target or bidding firm's characteristics. Specifically, in this study, the firm-specific factors denote the firm size, firm's leverage, and firm's pre-acquisition performance.

1.8 Organisation of the Thesis

This thesis comprises six chapters. The current chapter introduces the background of the study as well as its objectives and significance. Chapter 2 reviews the CBMA literature and its theoretical aspects. The development of the hypotheses and theoretical framework are presented in Chapter 3 whilst the research methodology employed by this study is explicated in Chapter 4. Chapter 5 provides the results of data analysis. Finally, Chapter 6 presents the discussions on the findings, the conclusion, contributions, and limitation of this study as well as several suggestions for future research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter provides a review of the literature covering two main aspects of CBMA, namely the firms' performance surrounding the CBMA event and the determinants of firms' performance. Nevertheless, before reviewing the literature, Section 2.2 discusses the theories underlying the motives for CBMAs and how it relates to the classical motives of mergers and acquisitions (M&As). This section also highlights the theories related to the determinants of the value creation in CBMA as reflected by the firm's performance. Section 2.3 provides the empirical evidence of the firm's performance in CBMA according to the previous literature. Section 2.4 outlines the previous studies on the determinants of firm's performance in CBMA based on three broad categories (country-specific factors, deal characteristic factors, and firm-specific factors). Section 2.5 summarises this chapter.

2.2 Theoretical Overview of CBMAs

This section discusses the theories related to the motives of CBMAs and how it relates to the classical theories of domestic mergers and acquisitions (M&As). Then it is followed by the discussion on theories underlying the determinants of the firms' performance following CBMA.

A firm's decision to pursue M&A (either domestic or cross-border) is grounded on various theoretical motives. For the domestic M&As, Mat Nor (2003) asserted that there are two main classical theories for M&As and they are shareholder wealth maximisation and non-value maximisation.

According to shareholder wealth maximisation theory, M&A should maximise shareholders' wealth by creating synergy and add value to both the bidding and target firms. The value creation would be reflected in the post-acquisition performance. Various theories had been listed as foundations for synergy creation such as efficiency theory, coinsurance effect theory, merger and debt capacity theory, tax benefit theory, agency theory, asymmetric information theory and monopolistic theory. For instance, according to efficiency theory M&A is executed to achieve synergy from financial, operational and managerial perspectives (Mat Nor, 2003).

In contrast, according to non-value maximisation theory, M&A would not maximise the shareholders' value because it is attempted to benefit the management of the firms. For instance, an increase in the firms' size following M&A would result in an increase in the remuneration of the management. Hence, according to this theory, the firms' performance will deteriorate following M&As.

For CBMAs, Morresi and Pezzi (2014) claimed that there are three (3) main motives behind a firms' decision for CBMAs. They are strategic reasons, external shock, and personal reasons. The first motive which is strategic reason for CBMA is closely related to the wealth maximisation theory because one of the strategic reasons for CBMAs is to create synergy. One of the sources of synergy creation is through the cost reduction. Cost reduction could be achieved through the internalisation of target firms' resources and improvement in corporate governance.

Corhay and Rad (2000), Basuil (2011), and Du and Boateng (2015) argued based on the internalisation theory and claimed that cost reduction could be achieved in CBMAs by internalising the resources of the target firm or host countries. According to foreign direct investment theory, firms normally decided to invest abroad due to market imperfection. Hence, the internalisation of resources could reduce the transaction cost which resulted from market imperfection and consequently creating synergy through increasing the firms' profitability. The increase in firms' profitability will maximise shareholders' wealth as it indicates an improvement in the firms' performance following CBMAs.

The internalisation theory is parallel to Eclectic Framework by Dunning (1980) who set forth three reasons for international production, namely ownership, location and internalisation. It is the "internalisation" element that attracts researchers most to the CBMAs literature because internalisation of target-specific resources is faster than setting up a new firm (Chen & Findlay, 2003). Accordingly, the bidding firms seek to internalise target firms ownership-specific advantages, such as technology, raw material, financial capital or distribution channel (Changqi & Ningling, 2010; Gonzalez, Vasconcellos, Kish, & Kramer, 1997; Popli & Sinha, 2014). The internalisation of these resources would result in cost reduction as it would be otherwise costly to obtain due to an inefficient market. Ultimately, this would improve the performance of the firms in CBMAs and hence maximising the shareholders' wealth.