

## CORPORATE GOVERNANCE SPILLOVER THROUGH BOOTSTRAPPING AND ASEAN BIDDER CBMA SUCCESS

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### ABSTRACT

*This study aims to examine whether the difference in country-level corporate governance between ASEAN bidding and the target country could explain the performance change (Tobin's Q) following a Cross-border merger and acquisition (CBMA); hence, the CBMA success. Using 142 CBMAs involving ASEAN firms as the bidder over the period 2002 to 2013, the study found that the difference in country-level corporate governance could result in corporate governance spillover through bootstrapping. This has resulted in the improvement of ASEAN bidder corporate governance and positively affected the CBMA success. However, the improvement must be large enough to outweigh the high acquisition cost.*

**Keywords:** Corporate governance, mergers and acquisitions, cross-border, bidder, bootstrapping, ASEAN

### INTRODUCTION

Cross-border mergers and acquisitions (CBMAs) has become a preferred internationalisation mode for the Association of Southeast Asian Nations

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(ASEAN) countries since the year 2000. According to the World Investment Report 2015 (UNCTAD, 2015), there is an increase in CBMA purchase of ASEAN countries for five consecutive years. In spite of the preference of using CBMA as an external growth, numerous CBMA deals involving ASEAN firms were withdrawn, indicating a deal failure. In addition, Froese (2010) claimed that more than 50% of CBMA failed to create value.

There is also a growing literature on spillover valuation effect for country-level corporate governance in the internationalisation process (Chari et al., 2010; Cumming et al., 2017; Danbolt & Maciver, 2012; Martynova & Renneboog, 2008). In ASEAN countries' CBMA, many bidder firms are from poorer corporate governance countries but attempting to acquire firms which have higher corporate governance. ASEAN, the region with high economic growth in this decade, provides a good platform for the study on spillover valuation effect.

In CBMA, there will be improvement of bidders' corporate governance through bootstrapping hypothesis which could create value and explains the variation in the firms' performance following CBMAs (Bhagat et al., 2011). Bootstrapping is the situation when the bidding firm would have to adhere to target strict corporate governance standard and hence resulted in improvement of bidders' governance. Bootstrapping hypothesis occurs when the bidding country has poorer country-level corporate governance as compared to the target country. Yen et al. (2013) argued that bootstrapping hypothesis would be more prevalent among bidders of the emerging market such as ASEAN countries due to their weak corporate governance.

When the bidder has poor corporate governance vis-a-vis target firms, bidders need to pay a high premium to compensate the target for the exposure of their poor corporate governance (Starks & Wei, 2013). Moreover, the majority of ASEAN bidding firms' top targets were from countries with high governance score (Rahim & Ali, 2016), indicating that ASEAN bidders are trying to bootstrap themselves to the target better country-level corporate governance.

According to bootstrapping hypothesis, ASEAN bidder (with low governance standard) must adhere to the target country's better corporate governance. ASEAN bidder's improved corporate governance could create value, which will be highly valued by investors. In this perspective, the lower the ASEAN bidding country's corporate governance or, the better the target country-level corporate governance, the more substantial the improvement in corporate governance in bidding firms and could improve post-CBMA market performance due to favourable valuation by investors. Therefore, to examine the bootstrapping

hypothesis, the first objective of this paper is to examine whether there is negative relationship between ASEAN bidder country-level corporate governance and ASEAN bidder CBMA success, and the second objective is to examine whether there is a significant positive relationship between target country-level corporate governance and ASEAN bidder CBMA success.

The adherence to target country-level corporate governance could only occur if the difference between bidding and target country-level corporate governance (governance gap) is not too distant (Thenmozhi & Narayanan, 2016). The bidder would not encounter many difficulties in adhering to the target country better governance standard. Thus, allowing bootstrapping to take place and positively affect CBMA success. However, as the governance gap is too large, the CBMA success may turn negatively, because the bidding firm would have to incur high compliance cost to adhere to the target country's much better governance standard. Therefore, the bootstrapping effect is subjected to the magnitude of the difference between bidding and target country-level corporate governance. Hence, our third objective is to examine bootstrapping follow an inverted-U, non-linear relationship between governance gap and CBMA success.

Using 142 CBMAs involving ASEAN firms as the bidder, the result indicates that corporate governance spillover through bootstrapping contributed to the success of ASEAN bidder in the CBMA transactions. There has been conclusive evidence that ASEAN bidders were able to bootstrap themselves to the target country's better corporate governance, thus, resulted in CBMA success. However, the occurrence of bootstrapping is subjected to governance gap in which there must be a substantial improvement in the ASEAN bidder corporate governance.

The contributions of the papers to the literature of corporate governance spillover are twofold. Apart of Martynova and Renneboog's (2008) which presents evidence on governance spillover for the European countries, uncertainty of the governance spillover effect on emerging countries such as ASEAN countries still exists. To our knowledge, this paper is the first to address spillover effect in ASEAN countries, which experience high economic growth despite weak corporate governance, comparatively to other regions. Secondly, corporate governance in an emerging market were mostly conducted at a firm-level and focused on the role of corporate governance in matters related to financing, the cost of capital, valuation, and performance (Claessens & Yurtoglu, 2013). There are limited studies on the role of country-level corporate governance in CBMAs (Bhagat et al., 2011). The study highlights that bootstrapping hypothesis does happen to ASEAN CBMA through the analysis

of country level corporate governance. Finally, the research extends the existing literature of corporate governance spillover valuation effects, by highlighting the importance of the governance gap between bidding and target country for the occurrence of corporate governance spillover through bootstrapping.

## **LITERATURE REVIEW**

Research areas in CBMA mostly involved the examination of a firm's performance following CBMA and the determinants of the performance. The effect of CBMA on a firm's performance indicates whether or not a value is created during a CBMA. Thus, the creation of value following a CBMA as evidenced by the improvement in the firm's performance represents the CBMA success. The following section discusses a CBMA success by outlining the previous research on firms' performance, followed by the determinants of CBMA success.

### **CBMA Success**

Most of the CBMAs literature related to firms' performance used the event study methodology to determine the impact of CBMAs on shareholders' wealth. Conclusive evidence shows that CBMAs instigated wealth creation for target shareholders from as low as 2.1% (Zhu & Jog, 2012) to 23.64% (Ahouansou, 2010) for the three days event window centred on the announcement day.

The evidence of wealth creation for bidding shareholders remain inconclusive. Several studies (Andriosopoulos & Yang, 2015; Aybar & Ficici, 2009; Datta & Puia, 1995; Thao Ngo et al., 2014) claimed that CBMAs do not create value for the bidding shareholders. Mangold and Lippok (2008) and Willams and Liao (2008) asserted that CBMAs to an extreme extent resulted in wealth destruction for the bidding shareholders. However, there are still other studies, which suggested that bidding shareholders gained during a CBMA transaction with most of the studies involved emerging market (EM) firms such as Chinese bidder (Du & Boateng, 2015; Ning et al., 2014; Wu et al., 2016) and Indian bidder (Rani et al., 2014). Thus, contrary to target shareholders, EM bidding shareholders earned a higher gain than developed market (DM) bidding shareholders.

A firm decided to be involved in a CBMA to ensure that it would result in a better firm's performance, not only in the short-run but also in the long-run. However, little is known about the firms' long-run performance following the CBMAs. For instance, very few studies (Basuil, 2011; Bris & Cabolis, 2008;

Dutta et al., 2013; Faelten et al., 2014) had attempted to examine the long-run market return for bidding shareholders, which is the buy-and-hold abnormal return (BHAR).

Basuil (2011), Bris and Cabolis (2008), and Dutta et al. (2013) concluded that CBMAs do not create value for bidding shareholders in the long-run because they found a negative or insignificant BHAR for the bidding shareholders. However, a later study by Faelten et al. (2014) indicated that there is wealth creation for bidding shareholder as the BHAR for all event windows showed a positive return. Only one study used Tobin's Q (long-term market-based performance) to measure the post-CBMA performance of target firms (Song, Kueh, et al., 2010). It is reported that there is an improvement in target firms' performance following CBMA.

Therefore, this study used long-term market-based performance (Tobin's Q) to measure the success of CBMA involving ASEAN firms. This is because Tobin's Q is widely utilised to measure the firms' performance (Choi et al., 2007; Lou et al., 2009; Song, Kueh, et al., 2010) in the corporate finance literature. In addition, Rao-Nicholson et al. (2015) asserted that the use of long-term measure to examine the firms' performance following a CBMA is appropriate as synergy will take years to materialise. Specifically, this study determined the success of ASEAN firms' CBMA by measuring the improvement of ASEAN firms' long-term market-based performance as compared to the performance prior to CBMA.

### **Determinants of CBMA Success**

In recent years, there has been a growing interest in the role of country-level corporate governance in explaining value creation following the CBMAs transactions. The role of country-level corporate governance was introduced by Martynova and Renneboog (2008) through corporate governance spillover hypothesis. One of the ways that country-level corporate governance could affect the firms' performance is when the bidding country has a poorer country-level corporate governance as compared to the target country. In this situation, the effect of governance spillover will occur through either a negative spillover or bootstrapping.

First, country-level corporate governance could negatively affect the firms' performance following CBMAs when the bidding firms are from a country with poorer corporate governance standard than the target (negative spillover) (Gregory & O'Donohoe, 2014). The main reason for the negative spillover to occur is the target firm would have to adhere to an inferior corporate governance

standard of the bidding firm's country. Martynova and Renneboog (2008) claimed that the situation would result in the diminution of the target asset value and a loss during the CBMAs transaction. The "negative" represents the deterioration of the target corporate governance standard following CBMAs. A negative spillover would normally occur during full acquisition, which is referred to as negative spillover by law. The negative spillover hypothesis is supported by Mangold and Lippok (2008) and Thenmozhi and Narayanan (2016).

Second, an alternative explanation for a negative spillover is that the bidding firms would have to adhere to the target strict corporate governance standard. It will improve the bidders' corporate governance standard and positively affect the firms' performance. The scenario is known as bootstrapping hypothesis. Bootstrapping hypothesis is supported by Bhagat et al. (2011) and Yen et al. (2013). Yen et al. (2013) argued that bootstrapping hypothesis would be more prevalent among bidders of the emerging market due to their weak corporate governance standard. However, Thenmozhi and Narayanan (2016) posited that bidding firms of an emerging market are unable to adhere to the stringent corporate governance standard of the target country. Consequently, Thenmozhi and Narayanan (2016) claimed that the higher the corporate governance standard of the target country the lower the combined firms' performance following a CBMA transaction. In a nutshell, corporate governance spillover (negative spillover and bootstrapping) explains the variation in the firms' performance following CBMAs.

In relation to ASEAN CBMAs, according to Rahim and Ali (2016), the majority of ASEAN bidding firms' top targets were from countries with better country-level corporate governance (high governance score). The choice of a target firm from a country with higher governance score by the management of the ASEAN bidding firm regardless of the higher premium to be paid (Starks & Wei, 2013), indicated that ASEAN bidders are trying to bootstrap themselves to the target better country-level corporate governance. For a bootstrapping to occur, ASEAN bidder has to adhere to the target country's better corporate governance. ASEAN bidder's improved corporate governance could create value, which will be highly valued by investors. Additionally, the better the target country-level corporate governance, the higher the ASEAN bidder performance change as there is a large improvement in the ASEAN bidding firms' corporate governance because ASEAN bidder would adhere to the target stringent country-level corporate governance standard.

Since Thenmozhi and Narayanan (2016) claimed that the adherence to target country level, corporate governance could only occur if the difference

between bidding and target country-level corporate governance (governance gap) is not too distant; it is expected that the occurrence of bootstrapping is subjected to the governance gap. Therefore, governance gap that is too large is anticipated to affect the CBMA success negatively because the bidding firm would have to incur high compliance cost to adhere to the target country's much better governance standard. However, if the governance gap is small, probably the bidder would not encounter many difficulties in adhering to the target country better governance standard. Thus, allowing bootstrapping to take place and positively affect CBMA success.

## **DATA AND RESEARCH METHODOLOGY**

### **Data**

This study selects CBMA sample from CBMAs involving six ASEAN member countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) as the bidding country from Thomson One Banker Database. The CBMA transactions must be announced and completed from the year 2002 to 2013. This is because ASEAN CBMAs prior to 2002 is still at its infancy level. The firms are public-listed companies and not classified under financial industries. This study also excludes the firms that have more than one completed CBMA in a particular year. Most importantly, this study selects CBMA involving ASEAN bidder from a poorer country-level corporate governance as compared to the target country. Lastly, financial data in Thomson Reuters DataStream for one year prior to the completion year and three years following the completion year must be available. A total of 142 CBMA transactions satisfied the sample selection criteria.

### **CBMA Success**

The dependent variable of this study is CBMA success. The completion of a deal and the value creation indicate CBMA success. Following Chakrabarti et al. (2009), this study used the changes in ASEAN bidding and target firms' performance after CBMAs compared with before CBMA as the proxy for CBMA success.

This study utilised Tobin's Q to measure the firm's performance, and it is calculated by deflating the sum of market capitalisation, preferred stock, and total liability by the total asset (Chung & Pruitt, 1994). The changes in the ASEAN firms' Tobin's Q is calculated by deducting Tobin's Q in the financial

year prior to the completion of the CBMA transaction from the average Tobin's Q of the firms three years following CBMA completion (Jory & Ngo, 2011; Wang & Xie, 2009).

### **Country-level Corporate Governance**

This study used Country's Governance Indicators extracted from World Governance Indicators (WGI) Index developed by Kaufmann et al. (2011) to measure the country-level corporate governance. Other than consistency in measurement throughout the countries, WGI is also time-varying, and this has allowed for a more accurate measurement.

WGI index comprises six governance indicators, namely the Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. The six governance indicators scores fell between  $-2.5$  and  $+2.5$ , where a higher score indicates a better governance environment. Emulating Chen et al. (2009) and Lim et al. (2016), this study constructed the country-level corporate governance index (CGI) by totalling all scores as they are highly correlated.

Both the ASEAN bidder country-level corporate governance ( $CGI_B$ ) and target country-level corporate governance ( $CGI_T$ ) were extracted. This study constructed a variable, which is the governance gap (the absolute difference between target and bidding country-level corporate governance) to measure the corporate governance spillover impact (bootstrapping). The variable is calculated as follows:

$$CGIG = CGI_B - CGI_T$$

### **Control Variables**

In addition to country-level factors, firm-specific factors and deal characteristic factors are important determinants of the CBMA success. Important firm-specific factors are firm's size (Basuil, 2011; Du & Boateng, 2015; Martynova & Renneboog, 2008; Sharma & Raat, 2016; Song, Abdul Rahman, et al., 2010; Wu et al., 2016), firm's leverage (Thao Ngo et al., 2014), and firm's pre-acquisition performance (Changqi & Ningling, 2010; Du & Boateng, 2015; Song, Abdul Rahman, et al., 2010). Deal characteristics that could affect CBMA success are transaction size (Aybar & Ficici, 2009; Aybar & Thanakijssombat, 2015; Bhagat et al., 2011), the appointment of advisors (Lowinski et al., 2004), and the relatedness of the target and bidding firm's industry (Aybar & Ficici, 2009;



Corhay & Rad, 2000; Jory & Ngo, 2011; Song, Abdul Rahman, et al., 2010). Therefore, this study incorporates those factors as control variables.

### Model

To examine the effect of bootstrapping on ASEAN bidder CBMA success, this study regresses the bidders' performance change (Tobin's Q) on:

$$\text{Performance change} = \alpha + \beta_1 \text{CountrylevelCG} \\ (\text{CGI}_B \text{CGI}_T, \text{CGIG}, \text{CGIG}^2) + \sum \beta_k \text{Controls}_k + \varepsilon$$

where  $\text{CGI}_B$  is the ASEAN bidding country B's country-level CG,  $\text{CGI}_T$  is the target country T's country-level corporate governance,  $\text{CGIG}$  is the governance gap ( $\text{CGIG} = \text{CGI}_B - \text{CGI}_T$ ), and  $\text{CGIG}^2$  is the square term of governance gap.

Controls is control variables (firm's size, firm's leverage, firm's pre-acquisition performance, transaction size, the appointment of advisors and the relatedness of the target and bidding firm's industry). This study utilises the Heckman (1979) procedure to control the sample selection bias. First, this study runs the probit analysis of ASEAN bidding firms that involved in domestic and CBMA to estimate the probability that a firm will undertake a cross-border rather than domestic acquisition. The parameters are then used to calculate Heckman's  $\lambda$  (inverse Mill's ratio) for each ASEAN bidder in this study. The Heckman's  $\lambda$  is subsequently included as an additional regressor into the regression on the ASEAN bidder's performance change.

## RESULTS AND DISCUSSIONS

### Descriptive Statistics

Table 1 shows that the average country-level corporate governance of ASEAN bidding country is 2.47, much lower than the average country-level corporate governance of the target country (8.28). Table 2 reveals a significant difference between ASEAN bidder and target country-level corporate governance. This result indicates that ASEAN bidder acquired target firms from countries with a significantly better country-level corporate governance. For instance, in the year 2011, ASEAN bidder from Malaysia ( $\text{CGI}_B = 1.83$ ) acquired target from the United States of America ( $\text{CGI}_T = 7.54$ ). Therefore, there is a possibility of bootstrapping to occur that could positively affect the CBMA success of ASEAN bidder.

Table 1  
Descriptive statistics

Variables	Mean	SD	Min	Max
$CGI_B$	2.4666	3.0356	-4.8654	9.5114
$CGI_T$	8.2755	2.1872	-3.0839	10.5072
$CGIG$	5.8088	2.8880	0.1669	14.9943
$CGIG^2$	42.0244	33.8007	0.0278	224.8281
$BSIZE$	5.1936	0.7867	3.4555	7.1457
$BLEVERAGE$	0.4109	0.1798	0.0057	0.8537
$BROA_{-1}$	11.8385	7.8788	-5.9020	49.9995
$TRVALUE$	4.3624	3.3832	-3.1549	9.3372
$ADVISOR$	0.2324	0.4239	0.00	1.0000
$RELATED$	0.4155	0.4946	0.00	1.0000
$IMR$	1.0392	0.5060	0.1988	2.3479

Notes:  $CGI_B$  is the ASEAN bidding country B's country-level CG,  $CGI_T$  is the target country T's country-level corporate governance,  $CGIG$  is the governance gap ( $CGIG = CGI_B - CGI_T$ ),  $CGIG^2$  is the square term of governance gap,  $BSIZE$  is firm's size,  $BLEVERAGE$  is the firm's leverage,  $BROA_{-1}$  is firm's pre-acquisition performance,  $TRVALUE$  is transaction size,  $ADVISOR$  the appointment of advisors,  $RELATED$  is the relatedness of the target and bidding firm's industry and  $IMR$  is Heckman's  $\lambda$  (inverse Mill's ratio)

Furthermore, Table 1 also indicates that the governance gap (the difference between ASEAN bidder and target country-level corporate governance is not large as the maximum governance gap is only 14.99, half of the possible governance gap of 30 [-15 for bidder, +15 for target). Figure 1 shows the distribution of governance gap for the sample. It is found that 82% of the governance gap of the sample lies in the lowest quartile (0 to 7.5) of possible governance gap. Only 18% of the governance gap lies between 7.5 and 15, and none exceeds 15.

Table 2  
Governance indices by the bidder/target country: ASEAN bidding firms

	Mean value	t-stat
Bidder country ( $CGI_B$ )	2.47	
Target country ( $CGI_T$ )	8.28	
Difference Bidder - Target ( $CGIG$ )	<b>-5.81***</b>	-23.97
$N$	142	

Notes: \*\*\*, \*\* and \* stand for statistical significance at the 1%, 5% and 10% level, respectively

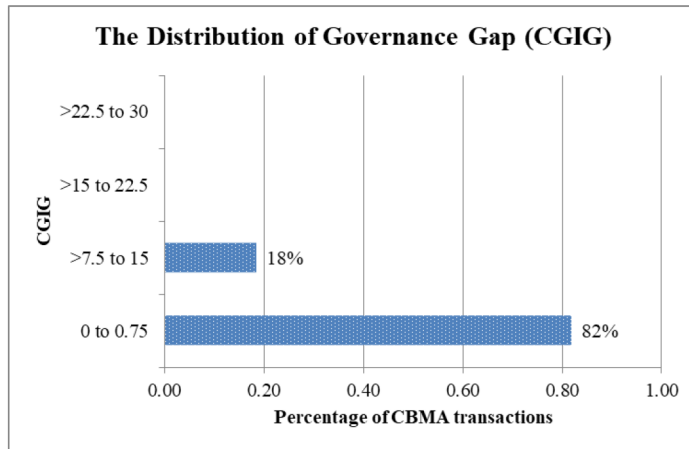


Figure 1. The distribution of governance gap

### Corporate Governance Spillover and CBMA Success

The correlation between variables and the result of corporate governance spillover (bootstrapping) for ASEAN bidding firms are presented in Tables 3 and 4, respectively. Table 3 reported that the correlations between variables are less than 0.90 except for  $CGIG$  and  $CGIG^2$  ( $r = 0.924$ ,  $n = 142$ ,  $p < 0.01$ ). This is due to the fact that  $CGIG^2$  is the square of  $CGIG$ . This study z-standardised the variables according to the rules set out by Dawson (2014) to avoid the multicollinearity problem. It employed White-test to test the homoscedasticity problem. Any heteroscedasticity problem during estimation of the regression model was addressed using the White’s adjustment procedure.

The four linear regression models tested for the corporate governance spillover (bootstrapping) of ASEAN bidding firms are Model 1.1 to Model 1.4. The regression models are reported in Table 4. Table 4 shows that the coefficient for  $CGI_B$  is negative and statistically significant at 10% level (Model 1.1). To address the first objective, the negative coefficient indicates that bootstrapping occurs because the poorer the ASEAN bidder country-level corporate governance, the higher the possibility of CBMA success through the improvement in bidding firms performance (Tobin’s Q), which indicate the presence of bootstrapping hypothesis. For the target country-level corporate governance ( $CGI_T$ ), a positive coefficient is expected as the better the  $CGI_T$ , the higher the improvement in the bidder’s corporate governance. Hence, the higher Tobin’s Q change. The result is the opposite where the coefficient of  $CGI_T$  is negative (Model 1.2), but it is not statistically significant. However, we do not find the support that confirm the

target country-level corporate governance could ensure ASEAN bidder CBMA success. Hence, there is no support for Objective 2.

Model 1.3 tests the third objective which is effect of governance gap (*CGIG*) on Tobin's Q change. If bootstrapping materialised, a positive coefficient is expected for *CGIG*. Apparently, Model 1.3 shows that the coefficient for *CGIG<sub>BT</sub>* is positive, but not statistically significant. To test the non-linear relationship between governance gap and CBMA success, the square of governance gap (*CGIG<sup>2</sup>*) is added and the result is presented in Model 1.4. The result indicates that *CGIG* is positive but not statistically significant. However, the coefficient of *CGIG<sup>2</sup>* is positive and statistically significant at 10% level.

The result is sufficient to partially support our third objective because there is evidence that bootstrapping could occur and positively affect CBMA success, which is evidenced by the improvement in Tobin's Q. However, there is no evidence of an adverse effect of large governance gap. The main reason why this study is unable to capture the adverse effect of large governance gap is due to the magnitude of the governance gap. As seen in Figure 1, almost the entire governance gap for bootstrapping sub-sample of ASEAN bidder CBMAs is 7.5 and below (82%). Only 18% ASEAN bidder CBMA transactions have a governance gap of more than 7.5.

It is clear from Figure 2 that there is positive effect of bootstrapping on Tobin's Q change when the governance gap is large. This is due to the costly acquisition because ASEAN bidders need to pay a high premium to compensate the target for the exposure to ASEAN bidder poor corporate governance, as asserted by Starks and Wei (2013). Thus, a large improvement in ASEAN bidder corporate governance (when governance gap large), there is high possibility of benefit from bootstrapping outweigh the acquisition cost.

Therefore, it is worthy for ASEAN bidder to acquire the target firms from a country with better corporate governance. However, ASEAN bidder has to ensure that the governance gap is large enough to result in substantial improvement in ASEAN bidder corporate governance. As a result, the benefit of bootstrapping could outweigh the high acquisition cost.

Table 3  
Correlation table

Variables	CGI <sub>B</sub>	CGI <sub>T</sub>	CGIG	CGIG <sup>2</sup>	BSIZE	BLEVERAGE	BROA <sub>-1</sub>	TRVALUE	ADVISOR	RELATED	IMR
CGI <sub>B</sub>	1	.426**	-.728**	-.688**	-.120	.077	-.193*	-.057	-.066	-.012	-.481**
CGI <sub>T</sub>		1	.309**	.265**	.004	.057	-.133	-.085	.157	-.148	-.131
CGIG			1	.924**	.129	-.038	.102	-.005	.188*	-.100	.407**
CGIG <sup>2</sup>				1	.209*	-.007	.150	.152	.195*	-.004	.466**
BSIZE					1	.337**	.079	.202*	.018	-.151	.906**
BLEVERAGE						1	-.111	-.168*	-.206*	-.264**	.347**
BROA <sub>-1</sub>							1	.234**	-.018	.191*	.113
TRVALUE								1	.455**	.263**	.166*
ADVISOR									1	0	.047
RELATED										1	-.185*
IMR											1

Note: \*\*Correlation is significant at the 0.01 level (2-tailed). \*Correlation is significant at the 0.05 level (2-tailed)

Table 4  
*Impact of country-level corporate governance on ASEAN Bidders' Tobin's Q change*

Model number	Model 1.1	Model 1.2	Model 1.3	Model 1.4
Constant	-1.2282	0.1570	-0.1151	-0.0575
Country-specific factors	-0.0675* (0.0378)			
$CGI_T$		-0.0123 (0.0236)		
$CGIG$			0.0121 (0.0242)	-0.1553 (0.1143)
$CGIG^2$				0.2116* (0.1148)
Control variables				
$BSIZE$	0.3217 (0.2875)	-0.1073 (0.1514)	-0.0780 (0.1671)	-0.0511 (0.1297)
$BLEVERAGE$	0.0314 (0.2728)	-0.2044 (0.2174)	-0.1864 (0.2432)	-0.0413 (0.0426)
$BROA_{-1}$	0.0048 (0.0066)	0.0059 (0.0069)	0.0057 (0.0067)	0.0450 (0.0539)
$TRVALUE$	0.0061 (0.0126)	0.0054 (0.0134)	0.0080 (0.0134)	-0.0056 (0.0428)
$ADVISOR$	-0.1766 (0.1164)	-0.1882 (0.1191)	-0.2204* (0.1168)	-0.1949* (0.1101)
$RELATED$	0.0106 (0.0916)	0.0363 (0.0941)	0.0469 (0.0917)	0.0149 (0.0912)
$IMR$	-0.4160 (0.5446)	0.4092* (0.2385)	0.3450 (0.3026)	0.1488 (0.1511)
$N$	142	142	142	142
$R^2$	15.00%	12.46%	12.46%	14.60%
F	2.93***	2.37***	2.37**	2.51**
Durbin-Watson	2.12	2.12	2.11	2.11

Notes: Unstandardised coefficients are shown with standard errors in parentheses. \*\*\*, \*\* and \* stand for statistical significance at the 1%, 5% and 10% level, respectively.  $N = 142$

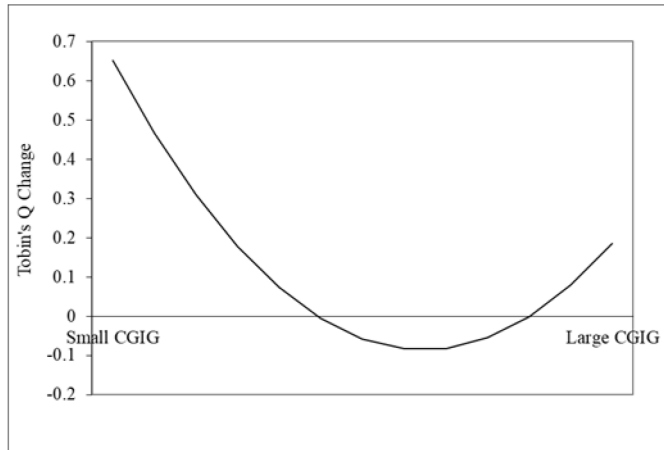


Figure 2. The quadratic effect of  $CGIG$  and  $CGIG^2$  on Tobin's Q change of ASEAN bidding firms

## CONCLUSIONS

The choice of CBMA as a preferred internationalisation mode by ASEAN firms is prevalent as evidenced by the World Investment Report 2015 (UNCTAD, 2015). Nevertheless, a low percentage of completed deals and the firms' inability to create value following CBMA spurred researchers' interest in examining the determinants of CBMA success. Since CBMA is a cross-border transaction, the country-specific factor such as country-level corporate governance difference is expected to explain the variation in the firms' performance following CBMA; hence, the CBMA success. This is because the difference in country-level corporate governance makes CBMA riskier compared with domestic merger and acquisition. Grounded on corporate governance spillover hypothesis by Martynova and Renneboog (2008), this study used 142 CBMA involving ASEAN firms as bidders to examine the effect of country-level corporate governance difference on the performance change (Tobin's Q) of ASEAN bidders following a CBMA. The results indicate that the corporate governance spillover through bootstrapping could explain the variation in the ASEAN bidder performance change following CBMA; hence, the CBMA success. It is found that the lower the ASEAN bidder country-level corporate governance, the higher the increase in Tobin's Q following a CBMA compared with Tobin's Q prior to CBMA.

Additionally, the results show that the effect of corporate governance spillover through bootstrapping could occur only when there is a large governance gap between the ASEAN bidding country and target country corporate governance. This is because only large governance gap could result in substantial improvement in ASEAN bidder corporate governance; thus, outweighs the high acquisition cost paid to target firms (to compensate the risk of exposure to ASEAN bidding country's inferior corporate governance). Furthermore, it is concluded that corporate governance spillover through CBMA is an important mechanism for corporate governance convergence. This study lacks evidence on the corporate governance spillover through positive spillover, which is its limitation in examining the corporate governance spillover through bootstrapping. Additionally, other country-specific factors such as cultural difference could also explain the CBMA success.

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