

# The Role of Country-Level Differences in Influencing ASEAN Firms' Cross-Border Mergers and Acquisitions (CBMAs) Success

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**Abstract:** The preference of using CBMAs as an external growth strategy spurs the interest to examining whether or not the CBMA transaction creates value that leads to a CBMA success. The decreasing trend of completed CBMA and non-value creation indicated that CBMA is a riskier transaction compared to the domestic M&As, which might be due to the risks related to cross-border transactions. Thus, this study explores the effect of the cultural distance, geographic distance, and the level of economic development in the ASEAN CBMA success. A total of 348 CBMA transactions involving the ASEAN bidder and 246 CBMA transactions involving the ASEAN target, announced and completed during the year 2002 to 2013, were analysed. Consistent with the social identity theory, a large cultural distance (power distance dimension) between the target and bidding country could adversely affect the CBMA success of ASEAN firms. Meanwhile, the geographic distance has no significant effect on the ASEAN CBMA success. The different level of economic development between the target and bidder also has a negative effect on the ASEAN CBMA success, contradicting the resource-based view theory.

**Keywords:** CBMAs, CBMA success, cultural distance, geographic distance, level of economic development.

**JEL classification:** G34

## 1. Introduction

A cross-border merger and acquisition (CBMA) is a transaction that involved two firms from two different countries. A large increase of the worldwide CBMA value in the year 2015 indicates CBMA is still preferred as an external growth strategy by the firms. However, the issue of CBMA success arises because data by Thomson One Banker suggested a decreasing trend of completed mergers and acquisitions (M&As). In addition, a study by Froese (2010) reported about 50% of CBMA failed to create value.

One of the reasons for the low completion rate and non-value creation is because CBMA is perilous venture than domestic M&As. This is due to the risks associated with the cross-border transaction such as cultural differences and geographic distance as highlighted by Koerniadi *et al.* (2015) and Lobo *et al.* (2015). Additionally, Caiazza and Pozzolo (2016) asserted that a country's economic development level affects the efficiency of the market for a corporate control. Chang *et al.* (2015) stressed that a country-specific factor is an important element in explaining the CBMA outcomes (such as whether a CBMA is successful or

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unsuccessful). Therefore, it is interesting to extend the existing evidence by assessing the impact of country-specific factors as the determinants of a CBMA success.

One of the risks associated with cross-border transaction stems from cultural differences (Koerniadi *et al.*, 2015; Lobo *et al.*, 2015). Moreover, the cultural differences are more prevalent in emerging countries (Smimou, 2015) such as the ASEAN countries. Cultural differences increase the risk of unsuccessful CBMA by complicating the post-CBMA integration process (Cartwright and Cooper, 1995; Duncan and 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 a CBMA deal success. Thus, it is important to examine whether or not the cultural differences serve as a deterrent factor of the CBMA success involving ASEAN countries.

Another important source of risk associated with a cross-border transaction is the geographic distance (Koerniadi *et al.*, 2015; Lobo *et al.*, 2015). Among the reasons for the adverse impact of geographic distance are increased 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 and Renneboog, 2008). The adverse impacts of geographic distance reduce the probability of a CBMA success. A small geographic distance is crucial for the success of CBMA deals, especially for ASEAN firms as small geographic distance will promote CBMA within the ASEAN region (The ASEAN Secretariat and UNCTAD, 2015). Hence, an investigation on the role of geographic distance in ensuring a successfully completed CBMA is crucial for the ASEAN firms.

Lastly, since the majority of ASEAN member countries are classified as an emerging economy, there is a high risk of an inefficient market for corporate control that could lead to a CBMA failure (Caiazza and Pozzolo, 2016). Thus, it is crucial for a CBMA transaction involving ASEAN firms to acquire or being acquired by firms from developed countries. In addition, the involvement of firms from countries with a different level of economic development would give resource complementary effect. Therefore, it is crucial to examine how the involvement of firms from different countries development level in the ASEAN CBMA could affect the probability of a successful CBMA. Thus, the main objective of this study is to investigate the role of country-specific factors (cultural distance, geographic distance, level of economic development) as the determinants of CBMA success.

This study used the CBMA transactions of the six most active CBMA players among ASEAN countries from the year 2002 to 2013 to examine the impact of country-specific factors on CBMA success. The results indicated that cultural distance (power distance dimension) is an important determinant of the CBMA success of both ASEAN target and bidding firms. A large cultural distance (power distance dimension) between the target and bidding countries reduced the possibility of CBMA success. Geographic distance has no significant effect on ASEAN firms CBMA success while an anomalous result is reported for the level of economic development. The CBMA transaction between two countries with different level of economic development yield lower ROA change than CBMA transaction between two countries with a similar level of economic development. Hence, ASEAN CBMA transaction involving countries from a different level of economic development decrease the possibility of CBMA success.

This study aims to contribute to the growing area of CBMA research by exploring the effect of several country-level factors (cultural distance, geographic distance, level of economic development) on the ASEAN firms' CBMA success. This is due to the limited evidence of CBMA literature examining these country-level factors involving emerging countries such as ASEAN countries. The majority of studies focused on CBMA transactions involving developed countries (Brock, 2005; Masulis *et al.*, 2012; Bae *et al.*, 2013; Dutta *et al.*, 2013).

The remaining part of this paper is organised as follows: the next section offers the review of literature and research hypothesis, followed by the description of sample and research design. The subsequent section presents the results and discussion. The last section concludes the paper.

## **2. Literature Review and Hypothesis Development**

The two most popular research areas in CBMA are the examination of 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 CBMA. Thus, the creation of value following CBMA as evidenced by the improvement in the firm's performance represents the CBMA transaction success. The following section discusses the CBMA success by outlining the previous research on firm performance, followed by the determinants of CBMA success (cultural distance, geographic distance and level of economic development).

### **2.1 CBMA Success**

The previous CBMA literature that explored the firm's performance following CBMA mainly focused on the short-term value creation using the event studies (Harris and Ravenscraft, 1991; Goergen and Renneboog, 2004; Bris and Cabolis, 2008; Martynova and Renneboog, 2008; Williams and Liao, 2008; Ahouansou, 2010; Ferreira *et al.*, 2010; Zhu and Jog, 2012; Gregory and O'Donohoe, 2014; Dang and Henry, 2016; Smimou, 2015). In particular, the creation of value is captured by examining the abnormal return surrounding the CBMA announcement date.

Nevertheless, Kaczmarek and Ruigrok (2013) argued that the best mean to ascertain the impact of management decision such as CBMA is by examining the accounting performance. However, little attention (Changqi and Ningling, 2010; Chari *et al.*, 2010; Jory and Ngo, 2011; Klimek, 2011; Grigorieva and Petrunina, 2015; Rao-Nicholson *et al.*, 2015) was allotted to the investigation of accounting performance as a measure for CBMA success. Therefore, this study used the long-term accounting performance as the proxy for CBMA success. In fact, employing the long-term accounting performance to measure the CBMA success is an ideal pick because the synergy will take years to materialise in a CBMA (Rao-Nicholson *et al.*, 2015).

### **2.2 Determinants of CBMA Success**

#### **2.2.1 Cultural Distance**

A common determinant of firms' performance in the CBMA literature is the cultural distance. This is due to the fact that CBMA transaction generally involved two firms from two different countries with a different cultural background. The previous studies that examined the impact of cultural distance on firm's performance following CBMA yield conflicting results.

The majority of the studies (Datta and Puia, 1995; Brock, 2005; Basuil, 2011; Ahern *et al.*, 2015; Lim *et al.*, 2016; Otterspeer, 2016) recognised the importance of acquiring a target firm that shared similar cultural background with the bidder as they noted a significant negative impact of cultural distance on the bidding firm's performance. A high cultural distance would result in an overpayment in the CBMA as the bidder has insufficient understanding of the target firm (Datta and Puia, 1995). The view was supported by Dutta *et al.* (2013) who claimed that cultural distance is commonly used as a proxy for information asymmetry where high cultural distance indicates high information asymmetry. Thus, it is not uncommon for a bidding firm to overpay when acquiring a highly cultural distant target.

Furthermore, the high cultural distance would also intensify the consolidation problem (Datta and Puia, 1995; Brock, 2005; Ahern *et al.*, 2015; Lim *et al.*, 2016; Otterspeer, 2016),

increased the consolidation cost and reduced the firm's value following CBMA. This is easily explained by social identity theory in which an employee is more inclined to deal with other employees with similar cultural values (Otterspeer, 2016). High cultural distance would lead to more challenging coordination and teamwork. Consequently, the cost allotted for the integration effort and administration would be too beaucoup and adversely affect the firm's performance following CBMA.

Popli *et al.* (2016) assert that a CBMA transaction between firms from two high cultural distant countries increases the probability of the deal being abandoned. In other words, the study suggested that acquiring a target firm from a country with large cultural differences from a bidder's country would result in detriment of the firms' value and negatively affect the firms' performance following CBMAs.

On the other hand, few studies (Morosini *et al.*, 1998; Aybar and Ficici, 2009; Chakrabarti, *et al.*, 2009; Aybar and Thanakijssombat, 2015) claimed that acquiring a culturally distant target would lead to better firms' performance following CBMA. Grounding on the resource-based view theory, the arguments supporting the positive impact of high cultural distance proposed that the potentiality of the bidding firm to expand its knowledge base and strength increases its competency (Morosini *et al.*, 1998; Chakrabarti *et al.*, 2009; Aybar and Thanakijssombat, 2015). Hence, the improvement of the firm's performance.

Furthermore, Chakrabarti *et al.* (2009) highlighted two favourable impacts of high cultural distance on the post-CBMA performance. First, the authors pointed out the stringent selection criteria of firms during the due diligence process because the bidding firm is aware of the high cultural distance between the bidding and target country. Stringent selection criteria mean the CBMA will only materialise when the bidding firm expects the acquisition to generate a substantial economic return for the firms. Second, Chakrabarti *et al.* (2009) also argue that CBMA involving two firms with diverse culture normally have better and more comprehensive contract due to the lack of trust between them. Therefore, stringent selection criteria and a comprehensive contract would positively affect the firm's performance following CBMA between the two firms with high cultural distance.

However, a study involving CBMA of Chinese firms reported an insignificant impact of culture towards the bidding firm's performance (Du and Boateng, 2015). The study claimed that the advancement in information technology and the western-educated managers' presence lessen the cultural gap between the target and the Chinese bidding firms. Therefore, acquiring a high cultural distant target has no impact on the firms' performance.

### 2.2.2 Geographic Distance

Geographic distance is also considered an important determinant of the firms' performance. Numerous studies (Martynova and Renneboog, 2008; Uysal *et al.*, 2008; Masulis *et al.*, 2012; Jongwanich *et al.*, 2013; Koerniadi *et al.*, 2015) reported that the possibility of CBMA success decrease with the geographic distance between the target and bidding country.

Studies by Martynova and Renneboog (2008) and Uysal *et al.* (2008) disclose that geographic distance between the target and bidding country negatively affected the bidding firm's performance following CBMAs. It was argued that the geographic distance complicates the bidding firm's effort to obtain information (Uysal *et al.*, 2008) from the target firm during the negotiation phase. Hence, augmenting the issue of information asymmetry in CBMAs.

In addition, Martynova and Renneboog (2008) claim acquiring a geographically proximate target firm (a proxy by having a similar language and a common border) would encourage trust between target and bidding firms. Thus, it would reassure transparency between the two parties, facilitate the post-CBMA integration, and improve the firms' performance. Jongwanich *et al.* (2013) corroborate the notion and further argue that CBMA

with high geographic distance increases the supervision cost. Accordingly, it would negatively affect the firm's performance following CBMA.

Studies by Bhagat *et al.* (2011) and Dutta *et al.* (2013) also highlighted the negative consequence of acquiring target firms from a country with high geographic distance. However, their studies' results were not statistically significant. It is interesting to note that none of the studies found any positive effect of acquiring a geographically distant target. Therefore, it is a reasonable assumption that geographic distance negatively affects a firm's performance following CBMA.

### 2.2.3 Level of Economic Development

Punurai (2014) claims a bidder country better-developed stock market implies the bidder better financial resources. Thus, it would engage in a CBMA with a target from the less developed market. CBMAs involving countries from different market development level generated a higher return compared to CBMA involving a similar market development level (Ahouansou, 2010; Chari *et al.*, 2010). The resource-based view theory could explicate this circumstance.

According to the resource-based view theory, there will be competitive advantage resulted from the combination of firms from countries with different economic development level through CBMA. For instance, when a bidder from developed (emerging) country acquire a target firm from emerging (developed) country, a complementary of resources such as capabilities (Ahouansou, 2010; Chari *et al.*, 2010), knowledge and technology (Bebenroth and Hemmert, 2015) would take place.

The complementing of resources would enhance the firm's competitiveness as it will result in a rare combination of resources which is valuable and not substitutable. Therefore, the CBMA between firms from countries with different economic development would gain a competitive advantage, thus, improve the post-CBMA performance. This notion is supported by Bany-Ariffin *et al.* (2016) who reported a significant positive impact on the firms' performance for CBMA involving bidder from emerging market and target from a developed market.

## 2.3 Hypothesis Development

### 2.3.1 Cultural Distance

Since CBMAs involve the transaction between two firms from two different countries, it is imperative to ensure the post-CBMAs integration process transpire smoothly and a minimal fund is spent on it. Timely post-CBMA integration will increase the success probability of the CBMA. One of the primary factors to be considered in the post-CBMA integration is the cultural issue (Cartwright and Cooper, 1995; Duncan and Mtar, 2006). An unresolved cultural-related issue is considered a major contributor to the post-CBMA integration failure (Kummer, 2009). The cultural issue is more severe in CBMA as compared to domestic M&A. The reason is that two separate national cultures need to be integrated (Duncan and Mtar, 2006; Kummer, 2009) owing to the countries differences in terms of corporate cultures, ownership structures, and legal framework of securities (Abdul Samad, 2009).

Therefore, the issue related to the cultural distance between the two firms that involved in CBMA should not be underestimated since it could result in the unsuccessful dealings (Cartwright and Cooper, 1995). Cartwright and Cooper (1995) further assert that cultural fit is as important as strategic fit in a CBMA transaction. The statement is supported by Duncan and Mtar (2006) who claim that cultural fit is essential for a successful CBMAs. Moreover, they emphasised that post-CBMA firm's performance is highly affected by the cultural issue. Thus, this study considered the difference in the national culture (cultural distance) between

the target and bidding countries in explaining not only the variation in a firm's performance following CBMA but the CBMA success as well.

The fact that ASEAN countries are the home to various cultures (Chua and Hekkelman, 2013), makes it the perfect background to consider the cultural distance factor as a determinant of post-CBMA performance. Considering the aforementioned arguments, a high cultural distance between a target and a bidder is expected to affect the firms' performance following CBMA negatively. Apart from complicating the post-CBMA integration process as per social identity theory, the high cultural distance would also lead to high information asymmetry, as proposed by Dutta *et al.* (2013). Consequently, there is a high possibility of the bidding firm overpaying the target and adversely affect the post-CBMA firms' performance.

Despite Chakrabarti *et al.* (2009) commendation of the advantage of high cultural distance between the target and bidder, the robustness of their argument is dubious. For instance, a bidding firm aiming to acquire a target from a country with high cultural distance needs to exercise stringent selection criteria of a target firm and devise a comprehensive contract. Hence, it is a time-consuming affair. Small cultural differences between a bidder and a target country would lead to less time to complete a CBMA transaction. According to the first mover advantage theory (Popli and Sinha, 2014), the latter bidding firms would obtain first mover advantage in securing important asset through CBMA, ousted the former bidding firms from competing in the market. Another study by Cartwright and Cooper (1995) used marriage as the analogy for CBMA and suggested that cultural fit is as important as partner compatibility in marriage. Hence, this study posits that small cultural distance between a target and bidding country is vital for a successful CBMA and could positively affect the post-CBMA firm's performance. Therefore, the first hypothesis is:

*H1: There is a negative relationship between target and bidding country cultural distance and CBMA success.*

### 2.3.2 Geographic Distance

One of the main differences between domestic M&A and CBMA is that CBMA involved firms from two geographically different countries. Several studies (Ferreira *et al.*, 2010; Erel *et al.*, 2012; Jongwanich *et al.*, 2013; Punurai, 2014; Lebedev *et al.*, 2015) have documented the negative effect of geographic distance between two countries on the CBMA intensity. Consequently, the geographic distance also resulted in the deterioration of the bidding firm's performance following CBMA (Martynova and Renneboog, 2008; Uysal *et al.*, 2008).

In the context of ASEAN firms, ASEAN Investment Report 2015 (The ASEAN Secretariat and UNCTAD, 2015) recognised the significant role of geographic proximity in encouraging the intraregional investments (investment in the same region). Apparently, an intraregional investment with a geographically proximate target is acknowledged as one of the key factors to both the CBMA success and the firms' performance betterment following CBMA for ASEAN firms.

There are several reasons why the geographic distance between bidding and target country could lead to poorer firm's performance in CBMA. First, the geographic distance has always been a proxy for the information asymmetry (Dutta *et al.*, 2013; Punurai, 2014) due to the imperfection in the capital market. High geographic distance represents high information asymmetry. Therefore, acquiring a target firm from a geographically distant country decelerate the transmission of information (Uysal *et al.*, 2008) and increase the cost of obtaining information from the target (Aybar and Ficici, 2009). This would raise the transaction cost involved to acquire the target firm and in turn, would result in the deterioration of the firms' performance.

Second, geographic distance is regarded a proxy for familiarity (Ferreira *et al.*, 2010). It is argued that familiarity between a target and a bidder would induce trust between the two parties (Martynova and Renneboog, 2008). Therefore, bidding firm will not have to spend a high cost to oversee the target firm as they trusted the management of the target firm. Consequently, the smaller the distance between a target and bidding country, the lower the cost incurred to monitor the target firm (Masulis *et al.*, 2012; Jongwanich *et al.*, 2013; Punurai, 2014; Lobo *et al.*, 2015; Holloway *et al.*, 2016). Thus, the low monitoring cost of the target firm will increase its' value and improve the firms' performance following CBMA.

Third, according to a study by Koerniadi *et al.* (2015), a high geographic distance between bidding and target country could positively affect the firm's default risk. In other words, acquiring a geographically distant target will increase the post-CBMA default risk. Thus, the small geographic distance would lead to a better firm's performance following CBMA, and ultimately to the CBMA success because the default risk is low. Therefore, the above arguments lead to the second hypothesis, which is:

*H2: There is a negative relationship between target and bidder's geographic distance and CBMA success.*

### 2.3.3 Level of Economic Development

A CBMA involves two firms from different countries with either similar or different level of economic development. Several studies reported a positive impact on the firms' performance following CBMA if the transaction involved firms from countries with different level of economic development (Ahouansou, 2010; Chari *et al.*, 2010; Bany-Arifin *et al.*, 2016). These studies implied that the difference in economic development level of target and bidding country would increase the possibility of a CBMA success.

It is interesting to examine how the dissimilarity of economic development level between target and bidder country influences the CBMA success in the ASEAN firms' context. The composition of ASEAN member countries extremely varies in regards to the level of economic development. For instance, MSCI classified Vietnam as a frontier market, Indonesia as an emerging market while Singapore is categorised as a developed market. Theoretically, any CBMA involving two firms from a different level of economic development is anticipated to improve their performance following the CBMA and hence, increase the probability of a successful CBMA.

The main reason why the bidding and target country with different economic development level resulted a better firm's performance in CBMA is the complementary effect in terms of capability or resources (Ahouansou, 2010; Chari *et al.*, 2010), and knowledge or technology (Bebenroth and Hemmert, 2015; Bany-Arifin *et al.*, 2016). From the perspective of resource-based view theory, the sharing of knowledge, technology, and capability would provide valuable resources to the firms. In turn, they would maintain their competitive advantage, and it is not easily substitutable by other firms. Thus, the competitive advantage created would result in a better firm's performance following CBMA. In addition, the involvement of firms from developed countries (either target or bidder) will increase the possibility of a successful CBMA. According to Caiazza and Pozzolo (2016), the better the economic development of a country, the more efficient the market for corporate control. Caiazza and Pozzolo (2016) also reported a significant negative impact of economic development level leading to a deal failure. Therefore, the third hypothesis is:

*H3: There is a positive relationship between the target and bidder's difference in economic development level and CBMA success.*

### **3. Research Methodology**

#### **3.1 Sample**

This study extracts the CBMA sample of CBMAs involving ASEAN country as either the target or bidding country from Thomson One Banker Database. Only six ASEAN member countries (Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam) are selected since these countries are highly involved in CBMAs in this region. The CBMA transactions must be announced and completed from the year 2002 to 2013. 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. Lastly, the financial data in Thomson Reuters DataStream for one year prior to the completion year and three years following the completion year must be available. The final sample comprised 348 CBMAs where ASEAN firms are bidder and 246 CBMAs where ASEAN firms are target.

#### **3.2 CBMA Success**

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

This study utilised the return on assets (ROA) to measure the firm's performance, and it is calculated by deflating earnings before interest, taxes, depreciation, and amortisation (EBITDA) by the total asset. The changes in the ASEAN firms' ROA is calculated by deducting ROA in the financial year prior to the completion of the CBMA transaction from the average ROA of the firms three years following CBMA completion (Wang and Xie, 2009; Jory and Ngo, 2011).

#### **3.3 Cultural Distance (CD)**

The cultural distance is calculated as the difference in the scores on the Hofstede's dimensions between bidding country and target country. The score on the cultural dimension for target and bidding country is obtained from <https://geert-hofstede.com/countries.html>. The score range from zero to 100. Following Brock (2005), this study focused on two dimensions, namely Power distance (CD\_PDI) and Individualism (CD\_IDV) because the two dimensions are closely related to post-CBMAs integration issue.

Power distance represents the acceptance of inequalities by members of the society. From the organisation point of view, high power distance means employee accept the hierarchical order with a top-bottom style of management while low power distance means employee accept equalities and the style of management is a bottom-up approach.

Individualism versus collectivism represents the involvement of a person in the society. From an organisation perspective, higher score means the employees prefer to work alone and lower score means an employee is a team player.

#### **3.4 Geographic Distance (GD)**

This study operationalised the geographic distance by calculating the absolute value of geographic distance between the target and bidding country using the Haversine formula (Uysal *et al.*, 2008; Bhagat *et al.*, 2011; Erel *et al.*, 2012; Dutta *et al.*, 2013; Jongwanich *et al.*, 2013; Punurai, 2014; Ahern *et al.*, 2015). The latitude and longitude of the capital cities is obtained from either one of the following websites:

<http://www.gps-coordinates.net/>

<http://www.mapsofworld.com/utilities/world-latitude-longitude.htm>

Next, the geographic distance between the two countries is calculated using the Haversine formula adopted from Erel *et al.* (2012) as follows:

$$GD = 6371 \times \text{acos}[\sin(\text{latB}) \times \sin(\text{latT}) + \cos(\text{latB}) \times \cos(\text{latT}) \times \cos(\text{lonB} - \text{lonT})] \quad (1)$$

where GD is the geographic distance between a bidder country and a target country, latB and lonB are the latitudes and longitudes of the bidding country capital cities, latT and lonT are the latitudes and longitudes of the target country capital cities.

### 3.5 Level of Economic Development (DEV)

The level of economic development is a dummy variable assigned to each CBMA transaction based on the bidding and target country development level. A dummy one (1) is assigned when bidding and target country has a different level of economic development and zero (0) when the bidding and target country has the same level of economic development. The level of economic development of each country is based on FTSE country classification.

### 3.6 Control Variables

Other than country-level factors, firm-specific factors and deal characteristic factors are important determinants of CBMA success as well. Important firm-specific factors are firm's size (Martynova and Renneboog, 2008; Song *et al.*, 2010; Basuil, 2011; Du and Boateng, 2015; Sharma and Raat, 2015; Wu *et al.*, 2016), firm's leverage (Ngo *et al.*, 2014) and firm's pre-acquisition performance (Changqi and Ningling, 2010; Song *et al.*, 2010; Du and Boateng, 2015). Deal characteristics that could affect CBMA success are transaction size (Aybar and Ficici, 2009; Bhagat *et al.*, 2011; Aybar and Thanakijombat, 2015), the appointment of advisor (Lowinski *et al.*, 2004) and the relatedness of target and bidding firm's industry (Corhay and Rad, 2000; Aybar and Ficici, 2009; Song *et al.*, 2010; Jory and Ngo, 2011) Therefore, this study incorporates those factors as control variables. Specifically, this study used OLS regression to regress the bidders' or target's performance change (ROA) on:

$$\text{Performance change} = \alpha + \beta_1 \text{Country-level Factors (CD\_PDI, CD\_IDV, GD, DEV)} + \sum \beta_k \text{Controls} + \varepsilon \quad (2)$$

where, *CD\_PDI* and *CD\_IDV* are the cultural distance between bidding country and target country for power distance dimension and individualism dimension, respectively, *GD* is the geographic distance between the bidder country and target country, *DEV* is the difference in economic development level between bidding country and target country and Controls is the control variables.

## 4. Results and Discussions

### 4.1 Descriptive Statistics

Table 1 and Table 2 present the descriptive statistics and correlation matrix of ASEAN bidding firms and ASEAN target firms, respectively. For the cultural distance (power distance dimension), ASEAN bidding firms have a higher average distance (22.86) as compared to ASEAN target firms (19.44). However, the result for individualism dimension is the opposite. The result also indicates that ASEAN target firms were acquired by a geographically distant bidder as compared to ASEAN bidding firms which acquired a target from a nearer country. In addition, the mean score for level of economic development for both ASEAN target and bidding firms indicate the majority ASEAN CBMAs occur between countries with different level of economic development.

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**Table 1:** Descriptive statistics and correlation table (ASEAN Bidder)

Variable	Descriptive statistic					Correlation Matrix										
	Mean	Med	SD	Min	Max	CD_PDI	CD_IDV	GD	DEV	BSIZE	BLEVE RAGE	BROAY-1	TQY-1	TR VALUE	ADVISOR	RELA TED
CD_PDI	22.8621	26.0000	14.2116	2.0000	66.0000	1.000										
CD_IDV	15.7644	6.0000	22.9361	0.0000	77.0000	0.573**	1.000									
GD	3577.83	2518.72	3858.28	309.26	16354.75	0.388**	0.807**	1.000								
DEV	0.6437	1.0000	0.4796	0.0000	1.0000	0.069	-0.324**	-0.315**	1.000							
BSIZE	5.1517	5.0414	0.7969	3.3758	7.4966	0.038	0.217**	0.225**	-0.073	1.000						
BLEVERAGE	0.4345	0.4200	0.2320	0.0057	2.4710	-0.012	0.046	0.041	-0.028	0.037	1.000					
BROAY-1	8.0238	10.1904	21.1015	-221.9887	49.9995	0.160**	0.068	0.049	0.145**	0.212**	-0.314**	1.000				
TQY-1	1.3638	1.0912	0.8702	0.2741	6.9154	-0.001	0.023	0.026	-0.048	-0.165**	0.043	0.012	1.000			
TRVALUE	5.1705	6.2981	2.9446	-3.1549	9.3372	-0.188**	0.229**	0.278**	-0.234**	0.235**	-0.126*	0.049	0.095	1.000		
ADVISOR	0.1925	0.0000	0.3949	0.0000	1.0000	0.047	0.121*	0.070	0.013	0.073	-0.135*	0.069	-0.002	0.333**	1.000	
RELATED	0.4713	0.0000	0.4999	0.0000	1.0000	-0.183**	-0.006	-0.027	-0.091	0.076	-0.113*	0.014	0.101	0.234**	0.021	1.000

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

**Table 2:** Descriptive statistics and correlation table (ASEAN Target)

Variable	Descriptive statistic					Correlation Matrix										
	Mean	Med	SD	Min	Max	CD_PDI	CD_IDV	GD	DEV	TSIZE	TLEVE RAGE	TROAY-1	TQY-1	TR VALUE	ADVISOR	RELA TED
CD_PDI	19.4431	17.0000	15.3211	2.0000	82.0000	1.000										
CD_IDV	20.9309	6.0000	24.4722	0.0000	77.0000	0.665**	1.000									
GD	4323.08	2582.32	4349.38	309.26	16354.75	0.577**	0.902**	1.000								
DEV	0.7520	1.0000	0.4327	0.0000	1.0000	0.002	-0.140*	-0.187**	1.000							
TSIZE	5.0942	5.1079	0.7965	2.8525	7.0236	0.119	0.035	0.068	-0.009	1.000						
TLEVERAGE	0.4984	0.4655	0.3814	0.0055	5.0248	-0.137*	-0.088	-0.067	-0.029	-0.030	1.000					
TROAY-1	11.6035	9.8278	31.2979	-64.2384	434.8933	0.014	0.005	-0.041	0.126*	-0.004	0.593**	1.000				
TQY-1	1.5596	1.1547	1.2936	0.2341	11.4852	-0.018	0.006	-0.001	0.104	-0.175**	0.410**	0.479**	1.000			
TRVALUE	7.2405	7.1677	0.8736	4.2304	9.5633	0.080	0.012	0.040	-0.039	0.693**	0.051	0.090	0.120	1.000		
ADVISOR	0.1626	0.0000	0.3698	0.0000	1.0000	0.025	-0.053	-0.047	-0.028	0.260**	0.031	0.044	-0.028	0.359**	1.000	
RELATED	0.3089	0.0000	0.4630	0.0000	1.0000	-0.040	-0.034	-0.063	0.038	0.001	-0.024	-0.013	0.033	0.087	0.015	1.000

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

Table 1 and Table 2 show that there is a significant correlation between the geographic distance (GD) and cultural distance for individualism dimension (CD\_IDV) of .807 and .902, respectively, significant at 1% level. However, there will be no issue of multicollinearity because the variables were not tested in a similar regression model. In addition, the variance inflation factor (VIF) test was also conducted for all of the regression models, and none of the value exceeded 10.

Table 3 presents the Hofstede national culture dimension score for the ASEAN countries and other countries involved in the CBMA transaction. Among the ASEAN member countries, Malaysia has the highest score for power distance dimension (100) while the Philippines recorded the highest score for individualism dimension (32). Table 4 shows the classification of a country by the level of economic development as classified by FTSE. The majority of ASEAN countries are emerging countries while the CBMA partners are mostly from developed countries.

#### 4.2 Determinants of CBMA Success

The regression models are presented in Table 5 and Table 6 for ASEAN bidding firm and ASEAN target firms, respectively. All regression models reported a Durbin-Watson statistic of close to 2.0 and hence, there is no autocorrelation issue in the regression analysis. The heteroscedasticity issue in the estimation of the regression model is addressed using the White's adjustment procedure.

The first variable of interest is the cultural distance where two dimensions were tested, namely power distance (CD\_PDI) and individualism (CD\_IDV). For ASEAN bidding firms, there is no significant impact of both dimensions of cultural distance on the CBMA success, as presented in Model 1.1 and Model 1.2. However, it should be noted that the sign of the coefficient is negative, consistent with the hypothesis that a large cultural distance resulted in a lower ROA change and reduced the possibility of CBMA success. This insignificant result might be due to the fact that ASEAN bidding firms' culture dominates after the acquisition as per redesign merger ("traditional marriage") explained by Cartwright and Cooper (1993). Therefore, ASEAN bidding firms do not have to compromise their social identity and thus leave no effect on firms' performance.

For the ASEAN target firms, there is a significant negative relationship between cultural distance for power distance dimension and ROA change, significant at 10% level as presented in Model 2.1. However, Model 2.2 reported that the individualism dimension shows an insignificant impact on ROA change. This means the power distance dimension is a more important dimension in explaining the variability of ROA change and hence a CBMA success. A 1% increase in cultural distance for power distance dimension could reduce the possibility of CBMA success involving ASEAN target firms by 16%.

For instance, a CBMA transaction between a Malaysian target firm and an Australian bidding firm resulted in a negative ROA change of 12% because the cultural distance between the two countries is 62 (Malaysia 100, Australia 38). However, when an Indian firm acquired a Singaporean firm, the ROA change is positive (42%) and the cultural distance between the two countries is 3 (India 77, Singapore 74).

This result is consistent with the previous studies (Datta and Puia, 1995; Brock, 2005; Basuil, 2011; Ahern *et al.*, 2015; Lim *et al.*, 2016; Otterspeer, 2016), which recognised the importance of acquiring a firm from a country with a similar culture because they will have a similar social identity. This would facilitate the post-CBMA integration, reduce consolidation cost and ultimately increase the firm value. As a result, there is a high possibility of CBMA success.

**Table 3:** Hofstede national culture dimension scores

Country	Hofstede National Culture Dimension		Country	Hofstede National Culture Dimension	
	Power Distance	Individualism		Power Distance	Individualism
Australia	38	90	Norway	31	69
Belgium	65	75	Philippines	94	32
Canada	39	80	Poland	68	60
China	80	20	Russian Fed	93	39
Croatia	73	33	Saudi Arabia	95	25
Denmark	18	74	Singapore	74	20
France	68	71	South Africa	49	65
Germany	35	67	South Korea	60	18
Hong Kong	68	25	Sri Lanka	80	35
India	77	48	Switzerland	34	68
Indonesia	78	14	Taiwan	58	17
Ireland	28	70	Thailand	64	20
Italy	50	76	Turkey	66	37
Japan	54	46	United Kingdom	35	89
Luxembourg	40	60	United States	40	91
Malaysia	100	26	United Arab Emirates	90	25
Mexico	81	30	Vietnam	70	20
Netherlands	38	80			

**Table 4:** Classification of country by level of economic development

Developed	Emerging	Frontier	Unclassified
Australia	China	Croatia	Saudi Arabia
Belgium	India	Sri Lanka	
Canada	Indonesia	Vietnam	
Denmark	Malaysia		
France	Mexico		
Germany	Philippines		
Hong Kong	Poland		
Ireland	Russia		
Italy	South Africa		
Japan	South Korea		
Luxembourg	Taiwan		
Netherlands	Thailand		
Norway	Turkey		
Singapore	United Arab Emirates		
Switzerland			
United Kingdom			
United States			

**Table 5:** Impact of country-level factors on ROA change for ASEAN Bidder

Model Number	Model 1.1	Model 1.2	Model 1.3	Model 1.4
Constant	-4.9462 (8.3021)	-7.5812 (7.2738)	-7.8568 (7.4340)	-2.0272 (9.1793)
<i>Country-specific factors</i>				
CD_PDI	-0.1067 (0.0753)			
CD_IDV		-0.0223 (0.0349)		
GD			-0.0003 (0.0002)	
DEV				-5.2167* (2.7631)
<i>Control Variables</i>				
BSIZE	-0.7979 (1.3623)	-0.8835 (1.4155)	-0.7709 (1.4624)	-1.0569 (1.4609)
BLEVERAGE	20.9706** (9.6224)	21.4279** (9.6696)	21.5273** (9.6027)	20.7472** (9.7877)
BTQ-1	0.3716 (1.1824)	0.2982 (1.1863)	0.3199 (1.2039)	0.2172 (1.1889)
TRVALUE	-0.2145 (0.4179)	-0.0655 (0.4340)	-0.0027 (0.4278)	-0.3163 (0.4377)
ADVISOR	3.2960 (2.3437)	2.9399 (2.3398)	2.8075 (2.3435)	3.4658 (2.2982)
RELATED	0.0509 (2.1588)	0.4479 (2.3115)	0.3020 (2.3386)	0.3358 (2.2670)
N	348	348	348	348
R <sup>2</sup>	0.0654	0.0608	0.0625	0.0745
F	3.40***	3.14***	3.24***	3.91***
Durbin-Watson	2.03	2.02	2.03	2.01

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

**Table 6:** Impact of country-level factors on ROA change for ASEAN Target

Model Number	Model 2.1	Model 2.2	Model 2.3	Model 2.4
Constant	-6.7323 (19.6046)	-7.5882 (20.2788)	-8.5346 (20.3597)	-2.4332 (19.3635)
<i>Country-specific factors</i>				
CD_PDI	-0.1635* (0.0963)			
CD_IDV		-0.0486 (0.0489)		
GD			0.0001 (0.0003)	
DEV				-6.7358* (3.9037)
<i>Control Variables</i>				
TSIZE	0.6494 (3.6156)	0.3232 (3.6019)	0.1865 (3.6526)	0.6486 (3.5607)
TLEVERAGE	-48.6660** (23.9727)	-47.9297** (23.9214)	-47.5023** (23.8968)	-48.2685** (23.8510)
TTQ <sub>-1</sub>	-4.8188 (2.9642)	-4.9080 (3.0108)	-4.9801 (3.0411)	-4.5687 (2.9962)
TRVALUE	4.7431 (3.9169)	4.7589 (3.9666)	4.7687 (3.9914)	4.3079 (3.8822)
ADVISOR	-8.7582 (9.8118)	-8.9612 (9.7939)	-8.6996 (9.7029)	-8.7720 (9.8094)
RELATED	4.0497 (3.6921)	4.1982 (3.7380)	4.3473 (3.8055)	4.5565 (3.7573)
N	246	246	246	246
R <sup>2</sup>	0.3329	0.3297	0.3288	0.3344
F	16.97***	16.72***	16.66***	17.08***
Durbin-Watson	1.85	1.83	1.82	1.83

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

For ASEAN target firms, there will be a clash of social identity between a Malaysian target firm with more autocratic (top-bottom) style of management and an Australian bidder with more participative (bottom-up) style of management. Since both target and bidder have their own social identity, the integration cost will escalate, which resulted in a decline of the post-CBMA performance and negatively affected the CBMA success. Since the significant negative impact of cultural distance is only reported for the ASEAN target firms, hence, Hypothesis H1 is partially supported.

The second variable tested is the impact of geographic distance on the CBMA success. Model 1.3 indicates that there is no significant effect of geographic distance on the CBMA success of ASEAN bidding firms. Although the sign of the coefficient is consistent with the hypothesis, the effect is almost zero (-0.0003). Similarly, for ASEAN target firms, there is no significant impact of geographic distance on the CBMA success as reported in Model 2.3.

This result is not in line with the findings of the previous studies (Datta and Puia, 1995; Brock, 2005; Basuil, 2011; Ahern *et al.*, 2015; Lim *et al.*, 2016; Otterspeer, 2016), which reported a significant negative effect of geographic distance on the CBMA success. This means there is no issue of high supervision cost as asserted by Jongwanich *et al.* (2013) when a CBMA involved two firms from geographically distant countries. This might be due to the advancement of technology with real-time information where a meeting could be conducted virtually, and the information is only a click away. This result indicates that the physical

distance between two firms is no longer a proxy for information asymmetry. Therefore, hypothesis H2 is not supported.

The third variable of interest is the level of economic development. Model 1.4 shows that there is a significant negative effect of different level of economic development on the ROA change of ASEAN bidding firms. A CBMA between two firms from countries with different level of economic development resulted in a lower ROA change by 5.65 than a CBMA between two firms from countries with a similar level of economic development. Thus, the acquisition of a firm from a different level of economic development by ASEAN bidder could reduce the possibility of CBMA success.

The result is similar for ASEAN target firms where the coefficient for the level of economic development (DEV) is negative and significant at 10% level with a higher magnitude (Model 2.4). The results are the opposite of the hypothesis that CBMA involving firms from countries with different level of economic development resulted in the complementary of resources as per resource-based view theory. Thus, the result of this study is not parallel with the previous studies by Ahouansou (2010) and Chari *et al.* (2010).

The negative impact of CBMA involving countries with different level of economic development might be due to the incompatibility of resources to be utilised when an acquisition took place. For instance, it is not easy for an ASEAN bidder from Vietnam (classified under frontier category) to utilise the technology of a target firm from the United States. A lot of funds would be spent on training and hence, negatively affect the bidder post-acquisition performance.

For the ASEAN target firms, there might be exploitation of resources by the bidder as suggested by Bebenroth and Hemmert (2015). Acquisition of firms from ASEAN developed country (Singapore) by an emerging country bidder such as China would result in a reverse knowledge transfer to China instead of a transfer of resource from China to Singapore. Hence, it would negatively affect the ASEAN target firms' value. Therefore, hypothesis H3 is not supported.

### 4.3 Robustness Test

Table 7 and Table 8 present the robustness test for the ASEAN bidding firms and ASEAN target firms, respectively, using Tobin's Q change as the dependent variable. Table 7 reports that cultural distance gives a negative impact on CBMA success of ASEAN bidding firms. In fact, Model 3.1 depicts a significant negative impact at 10% level. For the ASEAN target firms, only individualism dimension has a negative impact on the CBMA success while power distance dimension coefficient is positive. However, both coefficients are insignificant. Thus, for cultural distance variable, the result is consistent with the earlier regression model.

For geographic distance, the result is also consistent with a previous regression model. Both Model 3.3 and Model 4.3 indicate that geographic distance leaves almost zero impact on the CBMA success. For the level of economic development, Model 3.4 reports that the coefficient for the level of economic development is negative but not significant. However, for the ASEAN target firms, Model 4.4 reports a significant positive impact of different level of economic development.

## 5. Conclusion

CBMA success is a crucial issue since CBMA has been used worldwide as an external growth strategy. In addition, the decreasing trend of M&A completion together with non-value creation trigger a demand for more research on factors that could facilitate or hinder a CBMA success. Since CBMA is a transaction that involved two firms from two different countries, the factors that could risk a CBMA success could stem from the countries differences, such as cultural distance, geographic distance, and level of economic development. These factors

**Table 7:** Impact of country-level factors on Tobin's Q change for ASEAN Bidder

Model Number	Model 3.1	Model 3.2	Model 3.3	Model 3.4
Constant	-0.9547** (0.3740)	-1.1299*** (0.3691)	-1.1154*** (0.3652)	-1.0802** (0.4374)
<i>Country-specific factors</i>				
CD_PDI	-0.0066* (0.0034)			
CD_IDV		-0.0013 (0.0020)		
GD			0.0000 (0.0000)	
DEV				-0.0260 (0.1172)
<i>Control Variables</i>				
BSIZE	0.1825** (0.0782)	0.1816** (0.0781)	0.1789** (0.0777)	0.1750** (0.0806)
BLEVERAGE	0.4426 (0.4154)	0.4504 (0.4234)	0.4445 (0.4216)	0.4404 (0.4177)
BROA <sub>-1</sub>	-0.0111*** (0.0038)	-0.0117*** (0.0039)	-0.0117*** (0.0039)	-0.0116*** (0.0039)
TRVALUE	-0.0068 (0.0187)	0.0018 (0.0187)	0.0014 (0.0188)	-0.0012 (0.0179)
ADVISOR	0.0121 (0.1251)	-0.0090 (0.1224)	-0.0139 (0.1210)	-0.0100 (0.1217)
RELATED	-0.0188 (0.0871)	0.0043 (0.0871)	0.0047 (0.0868)	0.0069 (0.0879)
N	348	348	348	348
R <sup>2</sup>	0.1176	0.1094	0.1088	0.1087
F	6.47***	5.97***	5.93***	5.92***
Durbin-Watson	2.22	2.23	2.23	2.23

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

are essential, specifically for the ASEAN countries, which consist of member countries with unique cultures, geographically distant from the CBMA partners such as the United States and comprise different levels of economic development. Therefore, this study aims to examine the effect of country-level factors (cultural distance, geographic distance, level of economic development) on the ASEAN firms' CBMA success.

This study utilised the CBMA transaction involving six ASEAN member countries as either target or bidding firms. The CBMA transactions must be announced and completed from the year 2002 to the year 2013. The final sample consists of 348 CBMA transactions involving ASEAN firms as the bidder and 246 CBMA transactions involving ASEAN firms as the target. The regression results indicated that cultural distance is an important driver of CBMA success. The power distance dimension of national culture could adversely affect the CBMA success for both the ASEAN target and bidding firms. This result supports the social identity theory where the employees of either target or bidder prefer to work with others with a similar cultural background. A large difference in culture, especially the management style (autocratic versus bottom-up approach) as represented by power distance dimension could complicate the post-CBMA integration. Hence, integration cost would escalate, negatively affect the firm's performance following CBMA and ultimately lower the possibility of CBMA success.

**Table 8:** Impact of country-level factors on Tobin's Q change for ASEAN Target

Model Number	Model 4.1	Model 4.2	Model 4.3	Model 4.4
Constant	1.1803 (0.9017)	1.2211 (0.9064)	1.2294 (0.9070)	0.8324 (0.9032)
<i>Country-specific factors</i>				
CD_PDI	0.0024 (0.0051)			
CD_IDV		-0.0007 (0.0026)		
GD			0.0000 (0.0000)	
DEV				0.3919** (0.1856)
<i>Control Variables</i>				
TSIZE	0.0288 (0.2389)	0.0347 (0.2415)	0.0371 (0.2399)	0.0233 (0.2416)
TLEVERAGE	-0.4468 (0.5915)	-0.4745 (0.5882)	-0.4752 (0.5858)	-0.3984 (0.5895)
TROA <sub>-1</sub>	-0.0123* (0.0065)	-0.0121* (0.0065)	-0.0121* (0.0065)	-0.0134** (0.0065)
TRVALUE	-0.1400 (0.1979)	-0.1395 (0.1984)	-0.1381 (0.1995)	-0.1234 (0.1990)
ADVISOR	0.2909 (0.2080)	0.2872 (0.2119)	0.2821 (0.2130)	0.2977 (0.2064)
RELATED	0.0192 (0.1934)	0.0143 (0.1941)	0.0096 (0.1951)	-0.0005 (0.1932)
N	246	246	246	246
R <sup>2</sup>	0.1162	0.1158	0.1164	0.1273
F	4.47***	4.45***	4.48***	4.96***
Durbin-Watson	2.32	2.32	2.32	2.31

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

The geographic distance has no significant impact on the ASEAN firms CBMA success. In fact, the magnitude of the coefficients is close to zero. This is owing to the advancement of technology where physical distance is not a deterrent for supervising the geographically distant target firms. Lastly, the difference in the level of economic development of the target and bidding firms does not lead to resource complementary advantage as per resource-based view theory because the result suggests the opposite effect. The issue of resource compatibility and expropriation of the resource from the ASEAN countries is believed to give a negative effect on the CBMA success.

This study is unable to include the entire CBMA transactions such as ASEAN private firms due to limited data availability. The analysis of CBMA transactions involving private firms might offer a different insight whether or not the country-level factors have a similar effect on the CBMA success as public listed firms.

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