Research in International Business and Finance 50 (2019) 267–278

Contents lists available at ScienceDirect

Research in International Business and Finance

journal homepage: www.elsevier.com/locate/ribaf

Merger and acquisition research in the Asia-Pacific region: A review of the evidence and future directions

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ARTICLE INFO

JEL classification:
G34
G18
G14
G38

Keywords:
M&As
Corporate governance
Emerging markets
Acquisition activity

ABSTRACT

This paper provides a comprehensive review of Mergers & Acquisitions (M&As) research conducted in the Asia-Pacific region over the last decade. We also identify gaps in the literature and highlight some important research issues that provide directions for future research.

1. Introduction

Following the substantial declines observed in merger and acquisition (M&A) activity after the Global Financial Crisis (GFC), the business world has witnessed another rejuvenating period of global M&A activity. Despite a series of geo-political shocks, 2016 was a stellar year for cross-border deals. Global M&A activity reached its third highest deal value at 17,639 deals and US$3.2T volume since 2007 (US$2.4T).[1] Although the deal value in North America was down by 23% and in the Asia Pacific was down by 22%, the proportion of cross-border deals to total deals significantly increased from 30% in the mid-2000s to 43% in 2015–16. The deal value of cross-border deals also rose from 16% to 24% in last 10 years.[2] The current global M&A boom is nearing the peak experienced in the lead-up to the credit crunch. This wave of global M&As also impacted on the Asia-Pacific region in 2016, when M&A activity reached a record US$658.8 billion from 3675 deals, a 43% increase over the US$459.5 billion recorded in 2013.[3] In addition to this upward M&A trend, the region experienced major structural changes prior to 2005, such as financial deregulation and the Asian financial crisis, which are argued to have had a significant impact on the business environment and competitiveness of the region (Williams and Nguyen, 2005). In the wake of the largest merger wave in the history of the Asia-Pacific region, a fresh review of the M&A findings is warranted. In executing this review, we synthesise the recent research findings and identify future research directions.

Markets in the Asia Pacific are far more complex than in other regional settings as they experience asynchronous monetary

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[1] Mergermarket Global report, 2016.
[2] KPMG International report, 2016; Clifford Chance M&A Insights, 2016.
[3] Dealstreet Asia, 2016; Thomson Reuters Mergers and Acquisitions Review, 2014.

https://doi.org/10.1016/j.ribaf.2019.06.002
Received 14 May 2018; Received in revised form 27 May 2019; Accepted 3 June 2019
Available online 05 June 2019
0275-5319/ © 2019 Published by Elsevier B.V.

policies and exchange rate divergence, as well as diversity in shifts in the financial sector, deregulation in legal frameworks and the moderating pace of potential growth. The Asia-Pacific region has emerged as a growth engine of the world economy in recent years. Countries in this region are typically in different stages of structural change. Broadly speaking, the Asia-Pacific region has a well-developed financial infrastructure with large foreign exchange reserves,[4] solid sovereign debt profiles,[5] robust banking sectors and ameliorated external trade positions, but it has also experienced relatively low market efficiency, high stock market volatility, less transparency and poor regulation frameworks (see Su and Knowles, 2006; Selvam et al., 2007).[6] Despite these differences, the interest among global investors in Asia-Pacific markets has grown exponentially over the last two decades due to the enormous business opportunities provided by the region, a phenomenon compounded by decline or stagnation in other parts of the globe.

In more recent times, there has been a visible shift in the economic axis of the world, with global growth remaining moderate and uneven, while Asia-Pacific markets have demonstrated a higher level of economic buoyancy (see IMF [International Monetary Fund], 2017).[7] In 2014, the Asia-Pacific region recorded a gross domestic product (GDP) growth of 5.6% with a major contribution from three economies – China, Indonesia and Japan. Increased GDP growth and a strong flow of capital investment have driven a merger wave in the Asia-Pacific region. For example, the most targeted market in 2014 with US$390.4 billion of value from 4520 deals was China, the major contributor to GDP in this region. The upsurge in M&A activities, irrespective of different drivers, cultural barriers and market inefficiencies, has triggered significant interest among academic researchers in the study of Asia-Pacific markets. The significant increase in the level of M&A participation by firms from Asia-Pacific markets has thrown up several questions hitherto little explored in academic research. We also argue that the finance theories and empirical conclusions that have predominantly evolved in the global market context demand full and careful re-examination and, wherever necessary, theory and/or knowledge must be modified for the Asia-Pacific markets. The level of high uncertainty over these questions has encouraged us to review M&A articles that are specific to Asia-Pacific markets.

More specifically, we review more than 90 M&A articles post-2005, sourced from leading accounting, finance and management journals. The extensive review of M&A literature reveals that most papers published in this region focus on Australian (34) markets, followed by China (10) and India (3) markets. The M&A literature is very sparse for other Asia-Pacific markets such as Taiwan, Korea, Vietnam, Singapore, Malaysia, Hong Kong and Thailand.[8]

We classify the main M&A topics into: (i) acquirer general performance gains; (ii) acquirer performance gains in relation to various bid and firm characteristics; (iii) acquirer post-acquisition performance gains; (iv) target performance gains; (v) bid premiums paid to targets and acquisition performance; (vi) miscellaneous evidence on target shareholders' wealth; (vii) corporate governance and acquisition performance; and (viii) takeover regulations and M&A advisory firms and acquisition performance.

Our paper proceeds as follows. Sections 2, 3 and 4 distil the major themes in the M&A evidence on Asia-Pacific markets. In these sections, we outline the main findings and compare them with prior evidence from across the globe. Section 5 outlines suggestions for the future research agenda on M&As. Section 6 concludes the paper.

2. Wealth gains and post-merger/acquisition performance

Asia-Pacific markets are perceived to be transitioning from different stages of 'segmented market' status to an 'integrated market' status. The causes and effects of these transitions have impacts on takeover activity. But how much do these transition differences impact on the performance gains associated with takeovers? These questions are only partially explored and are largely left to be explained. In the section, we give a broad picture of what we do know regarding wealth effects of mergers and acquisitions (M&As).

2.1. General evidence on acquirer performance gains in Asia-Pacific markets

A commonly held belief is that acquisitions destroy shareholder value or, at the least, reduce the wealth of acquirers' shareholders. Earlier studies tested various hypotheses to explain this puzzling phenomenon of M&As. Several managerial motives can lead to a takeover decision, such as the agency motive (Jensen and Meckling, 1976; Jensen, 1986); hubris behaviour (Roll, 1986); and the synergy motive (Bradley et al., 1988). Agency motives of corporate control arise when the acquirer's managers simply want to increase the firm size (e.g. Marris, 1964); when the size of firms triggers pay rises (Main et al., 1996); or when diversifying acquisitions are used as a means of reducing the volatility of income streams to diversify firms' employment risk (Morck et al., 1990).

In the remainder of this sub-section, we choose to highlight a few interesting themes relevant to the question of wealth effects on acquirers: listing status of targets; insider trading; cross-border acquisitions and earn-outs.

[4] https://www.adb.org/sites/default/files/publication/28389/economics-wp170.pdf.

[5] See Moody's Investors Service Report at https://www.moodys.com/research/Moodys-2017-outlook-for-Asia-Pacific-sovereigns-stable-reforms-external–PR_360282.

[6] The Asia-Pacific region distinguishes itself from other global markets with its typically lower level of efficiency and transparency (see Fan et al., 2011; Chen et al., 2009).

[7] https://www.imf.org/en/Publications/REO/APAC/Issues/2017/04/28/areo0517.

[8] We apply the Australian Business Deans Council (ABDC) ranking to search for the relevant M&A literature. Most papers cited in this article are ranked as categories 'A* (36)' and 'A (52)' by the Australian Business Deans Council. The highest incidence of papers are published in *Pacific-Basin Finance Journal; Journal of Financial Economics; Accounting and Finance* and *Journal of Corporate Finance.* See Appendix A for details.

2.1.1. Listing status of targets

Most M&A studies in the literature rely on market reactions to acquisition announcements, which naturally investigate deal and firm characteristics. Along these lines, Akhtar (2016) examines what motives drive Australian bidders entering acquisitions. The author finds that the management acquisition decision is driven more by hubris behaviour than by agency or synergy motives. Therefore, it is important to reveal the economic gains of the bidding firms shown in the prior regional literature. da Silva Rosa et al. (2004) investigate the target's listing status and abnormal returns upon the takeover announcement and find that, while Australian bidders for public targets do not earn abnormal gains in acquisitions, these bidders exhibit significant positive excess returns on the announcement of takeover bids for unlisted targets. The authors also show that Australian bidders for unlisted targets use cash more frequently than US bidders and that positive returns for Australian bidders for unlisted targets mainly accrue from cash acquisitions. This finding is consistent with the earlier study of Walter (1984) who reports zero gain to bidder shareholders. Similarly, Shams et al. (2013) provide strong evidence that Australian bidders for private and subsidiary targets earn higher abnormal returns than bidders for public entities. The findings also reveal that bidders earn significant positive abnormal returns when they acquire unlisted public targets, privately negotiated acquisitions of private targets and acquisitions of subsidiaries from listed parents for cash.

The above findings for the Australian takeover market corroborate a number of US and UK studies which report that bidders gain from private and subsidiary target acquisitions but lose from public target acquisitions (Chang, 1998; Ang and Kohers, 2001; Fuller et al., 2002; Conn et al., 2005; Draper and Paudyal, 2006; Faccio et al., 2006; Tang, 2015). However, none of the Australian studies directly investigates why acquirers earn higher abnormal returns for unlisted targets than for listed targets. In contrast, in the US market, Officer (2007) tests several predictions/hypotheses that can contribute to the above findings, such as a liquidity constraint hypothesis, an agency motive and an information disparity hypothesis. The author documents that, on average, an acquisition discount of 15% to 30% applies to unlisted targets compared to listed targets. The author provides evidence that this lower premium is consistent with the liquidity constraint hypothesis. *Future research should consider this perspective and identify theoretical and institutional frameworks to assist in understanding why bidders gain from unlisted target acquisitions.*

2.1.2. Insider trading by acquirer directors

Both acquirer and (to a lesser extent) target firm directors have prior knowledge of, and influence over, imminent bids as they are heavily involved and participate in the takeover negotiation process. This reveals a potential conflict of interest as these directors have opportunities to increase their personal wealth or to further their careers and reputations. In line with this perspective, Chang et al. (2018) examine the pattern of director trading of their own company shares in the pre-acquisition period. The authors show that target directors reduce their insider trading sales more than their purchases in the run-up to takeover announcements. Shams et al. (2016) document that pre-announcement director trading is an important signal of the acquirer's announcement period abnormal returns. They find that pre-announcement net value (the difference between buy value and sell value) of directors' trading is positively related to acquirers' announcement period abnormal returns. *An avenue for future research would be to test the effectiveness of insider trading sanctions (*Seyhun, 1992*) and whether financial media sentiment moderates the association between the two.*

2.1.3. Cross-border acquisitions

A few studies show that the bidder's abnormal returns depend on target country characteristics (domestic versus cross-border acquisitions). In particular, the uncertainties about a target's future performance, both at macro level and firm level, impact on the bidders' wealth gains. However, little research has examined cross-border M&A deals in Asia-Pacific markets. We found only two papers that directly investigate market reactions to cross-border acquisition decisions. For example, Bhagat et al. (2011) find that acquirers from emerging markets earn significant positive announcement period abnormal returns on announcement day in cross-border acquisitions. In addition, they find that these acquirers' returns depend on the target country's specific governance variables. Supporting these findings, Colombage et al. (2014) examine the cross-border bid for public and private targets and find that Australian acquirers earn significant positive abnormal returns in cross-border acquisitions, irrespective of the type of organisational form of the target acquired. These results show that bidders earn higher returns when they acquire a foreign private target using equity payment and when the target is located in a high investor protection country.

2.1.4. Earn-outs

At the firm level, material uncertainties are present with respect to the target's performance subsequent to the deal closing. Earn-out is a contractual agreement in which the acquiring company makes payment to the target in two or more parts and employed as a form of purchase consideration in deal structures to mitigate target firm valuation error. Kohli and Mann (2013) find that earn-outs offer significant positive abnormal returns for bidding firms. They show that Indian acquirers earn higher abnormal returns when they use earn-outs in cash acquisitions than is the case in stock acquisitions. The use of the earn-out strategy is more value creating when targets operate in technology-intensive sectors and when these targets are pursued by experienced acquirers.

2.2. General evidence on acquirer performance gains related to various bid and firm characteristics in Asia-Pacific markets

2.2.1. Toeholds and leverage

Several studies examine the impact of other firm- and bid-level characteristics, such as toeholds on bidder gains and leverage. One such study by Le and Schultz (2007) finds that Australian bidding firms, on average, do not earn significant positive abnormal returns in takeover announcements. Instead, they document significant positive abnormal returns to bidders who acquire a toehold ownership and toehold size in single-bidder takeovers. However, such evidence disappears when bidders are involved in multiple acquisition contests with the chance of increased probability of overbidding by the toehold bidder. Khoo et al. (2017) investigate the change in leverage of Australian bidders in the acquisition year using 1524 acquisitions. These authors find that Australian acquirers adjust their leverage to the target capital structure and that the speed of adjustment (SOA) is higher when major disruptions occur in acquirers' leverage ratios. However, that study faces the limitation of arriving at an SOA benchmark. *Future research should investigate the interrelationships between the adjustment speed and well-known business cycle variables.*

2.2.2. Bid characteristics

A dearth of literature is evident in Asia-Pacific markets on several important bid characteristics. *There is scope to expand the M&A literature in the context of serial bidders, hostile takeovers, high-tech target acquisitions, cost of diversification and the payment method used in M&A transactions. A cross-country analysis of these prominent bid characteristics would be of interest, warranting investigation across different country and institutional settings.*

2.2.3. Financial advisors

Several recent studies investigate Chinese acquisition performance in a variety of contexts. The argument of whether top-tier financial advisors in M&As have the ability to add value to transactions is still subject to a great deal of debate. Bi and Wang (2018) examine the financial advisor reputation and acquisition performance of Chinese bidders. The authors show that top-tier financial advisors affect acquisition quality and that bidders earn significantly higher abnormal returns when they employ top-tier financial advisors in M&As. The findings also show that by engaging top-tier financial advisors, M&A bidders enjoy improved post-acquisition operating performance and pay a lower bid premium to targets.

2.2.4. Media coverage

Whether domestic media coverage plays any role in the governance of M&As, particularly in the sphere of biased media in developing countries, warrants investigation. In particular, it remains puzzling whether media coverage acts as an alternative mechanism to influence managers and board members. Using domestic media coverage during M&As, Borochin and Cu (2018) show that domestic media coverage acts in an alternative governance role in the Chinese M&A market. The authors find that negative media coverage has forced managers to abandon proposed acquisition deals. *It is important that future research should investigate whether the corporate life cycle moderates the association between domestic media coverage and acquisition success and efficiency.*

2.2.5. Earnings manipulation

Given the widespread use of earnings manipulation (Graham et al., 2005), it is important to know whether acquirers have the tendency to overstate earnings prior to stock-financed acquisitions. Lennox et al. (2018) investigate whether auditors can detect and correct overstatements in earnings for stock- and cash-financed Chinese acquirers pre- versus post-acquisitions. The authors find significant downward adjustments in the audits immediately prior to acquisitions financed by stock payments.

2.2.6. Liquidity

The availability of liquid assets facilitates the undertaking of valuable projects by management. Liquidity, on the other hand, allows management to pursue their own objectives which may be detrimental to the firm (Keynes, 1936). *The desirability of the attribute of liquid assets is one area which needs further investigation.* Aligned with this point, Yang et al. (2019) investigate corporate liquidity and acquisition decisions and find that cash-rich Chinese bidders are more likely to make acquisitions. However, cash-financed acquisitions underperform in both the short and the long run.

2.2.7. Legislative change

The Japanese government has made many legislative changes to boost the country's economic growth. This changing legal context demands a re-examination of the market reaction between domestic and foreign targets with these considered before and after pro-M&A legislation. Higgins and Beckman (2006) examine the market's reaction to M&A announcements, investigating Japanese bidders during 1990–2000 and find that bidders earned significant positive abnormal returns when acquiring domestic targets after the institution of pro-M&A legislation in Japan.

2.2.8. Foreign direct investment

The investment decision in cross-border acquisition versus greenfield foreign direct investment (FDI) is complex, with management judgement vital to this area of decision making. Nagano (2013) investigates the choice between acquisitions versus greenfield FDI using Japanese data. The author finds that Japanese acquirers pursuing cross-border M&As in Asia and Oceania markets tend to choose cross-border acquisitions (greenfield FDI) when target countries have a higher level of shareholder rights laws (intellectual property rights laws). Japanese acquirers in cross-border M&As experience higher cumulative abnormal returns following the investment, while a firm pursuing greenfield FDI experiences increases in its stock price immediately before the investment. The author also finds that macroeconomic characteristics determine the likelihood of cross-border M&A flow. Regarding the role of the target's environment in relation to the FDI mode of entry, the author finds that acquirer firms prefer greenfield investments when they already have regional networks in the target country, and they choose M&As when their purpose is market expansion. *It would be interesting to explore whether firms operating in more competitive industries are more likely to pursue cross-border acquisitions than greenfield foreign direct investment (FDI).*

2.2.9. Merger waves

Several studies investigate the effect of merger waves on bid premium and the bidding firm's wealth effect. Takeover waves are the results of economic, regulatory and technological shocks. As a result of structural changes and macroeconomic differences, takeover markets frequently witness takeover waves in the Asia-Pacific region. Duong and Izan (2012) show that Australian bidders pay a higher premium for a takeover target during a non-wave period (26.71%), compared to a wave period (24.61%), in the period two months prior to the announcement date. Acquiring firms perform worse in wave periods (-2.91%) compared to non-wave periods (2.89%) using the 12-month post-bid stock market performance. These results are statistically significantly different between wave and non-wave periods. These findings support Finn and Hodgson (2005) who find that stock prices and takeover activity share a long-term common trend and that aggregate takeover activity is driven by fundamental economic factors rather than by speculative activity. In a similar vein, Duong (2013) develops a model to identify merger waves in the Australian market for the period 1972–2004, and finds that the state-space Markov-switching autoregressive–moving-average (ARMA) model provides the best capture of Australian takeover time series compared to other models.[9]

2.2.10. Cultural and political factors

Although cultural differences and political ideology are plausible contextual factors in the context of M&As, very little is known to date. In terms of linguistic distance between acquirers and targets, Li et al. (2018) provide evidence that Chinese acquirers earn lower abnormal returns when linguistic distance between acquirers and targets is more pronounced, indicating that cultural difference is an important determinant of the acquisition outcome. Zhang and Mauck (2018) show that Chinese bidders earn higher abnormal returns when China has a stronger bilateral political relationship with target nations and that abnormal returns earned by Chinese government-affiliated bidders do not differ from those earned by bidders who are not affiliated with the government. Using a panel of Chinese banks, Zhu and Yang (2016) show that when foreign bidders acquired state-owned banks, the propensity for risk-taking behaviour by such state-owned banks reduced significantly. In a similar vein, Schweizer et al. (2017) show that politically-connected privately-owned enterprises (POEs) are more likely to complete a cross-border acquisition than their counterparts who are not politically connected. Further results show that market reactions to M&A announcements by politically-connected POEs are lower compared to those of POEs that are non-politically connected. Chi et al. (2011) report positive and significant abnormal returns for Chinese acquiring firms, with this being more pronounced when acquiring firms have political advantage, stronger government connections and a power balance among the large shareholders. Higgins (2013) presents a new perspective on Japanese firms' mergers in relation to bank ties. He examines the conflict of interest between banks and their client firms in takeover activity and finds that acquirers with stronger bank ties experience larger wealth loss than occurs in cases with weaker bank ties.

2.3. General evidence on acquirer post-acquisition performance gains in Asia-Pacific markets

2.3.1. Long-run post-acquisition performance

The short-run market performance of M&A decisions is inconclusive, according to the consensus of the M&A literature. This inconclusive evidence suggests that to better understand the complete economic impact of M&As, further investigation be undertaken of the long-run performance of acquiring firms following mergers. For example, Kruse et al. (2007) examine long-term operating performance following mergers of Japanese manufacturing firms. Their analysis reveals that merging firms experienced improved operating performance and that the pre- and post-merger performance was highly correlated. In addition, the authors report that bidder gains were significantly greater when target firms were operating in different industries.

In a similar context, a relatively recent study by Daniliuc et al. (2014) investigates the impact of both an acquisition focus and post-acquisition integration management on long-run post-acquisition performance of Australian Securities Exchange (ASX)-listed firms. Their results suggest that an acquisition focus and post-acquisition asset management are significant determinants of long-run post-acquisition performance. The authors report that post-acquisition performance improves more for deals that undertake post-acquisition integration following focus-increasing acquisitions, than for deals that undertake post-acquisition integration following focus-decreasing acquisitions. Shams and Gunaskerage (2016) investigate the target's public status and the long-run operating performance of bidding firms. The authors identify that the target's public status does not affect the bidder's long-run operating performance. The findings of these studies imply that the post-acquisition performance of bidding firms is conditional on several bid characteristics.

2.3.2. National characteristics

Apart from the various firm and bid characteristics that explain long-run operating performance, several studies extend the prior literature by investigating the impact of various country characteristics, cultural dimensions and linguistic distance on cross-border M&A performance in the developed and emerging market contexts. One such study by Ellis et al. (2016), covering 56 countries, shows that the country governance distance between the acquirer and the target affect the acquirer's stock-price reaction. Examining 56,978

[9] A few studies examine whether the divergent results of the M&A performance of bidders relate to the return estimation model. For example, Simmonds (2003) concludes that abnormal returns vary significantly with the choice of the return estimation model during takeover announcements. Simmonds (2004) also suggests that pre-acquisition bidder characteristics should be included in the event study model, as they significantly impact on the naive inferences of shareholders' reactions to an offer. Similarly, Akhtar (2017) argues that failure to account for self-selection bias in sample selection may lead to erroneous conclusions about a bidder's true economic wealth effects around an announcement event.

cross-border mergers, Erel et al. (2012) find that higher economic development, geographic distance, better quality of accounting disclosure, and bilateral trade increase the likelihood of mergers between firms in two countries. Jory and Ngo (2014), examining bidding firms, report a strong association between the quality of the target country location and the choice of state-owned enterprises from abroad.

2.3.3. Cross-border mergers

Zhou et al. (2016) investigate M&As in emerging economies and find that differences in political, trade and legal environments strongly affect the completion of inbound M&As but, when M&As are outbound, have a much weaker influence. Similarly, the critical role of cultural differences has been examined in another recent study by Ahern et al. (2015) who show that three key dimensions, namely, trust, hierarchy and individualism affect merger volume and synergy gains in both domestic and cross-border mergers. Yildiz and Fey (2016) show that psychic distance perceptions affect cross-border mergers and acquisitions (M&As). Dow et al. (2016) examine foreign acquisitions and find that diversity within the target country negatively affects the proportion of equity held by foreign bidders and that diversity within the acquirer country results in a higher level of cognitive complexity. Cuypers et al. (2015) show that linguistic distance and lingua franca proficiency affect the equity stake taken by acquirers in the host country in cross-border acquisitions. *We encourage future research on long-run operating performance and the personality, ownership stake and compensation package of the Chief Executive Officer (CEO) which are directly linked to the managerial motive of the M&A decision.*

3. Target wealth gains and post-merger/acquisition performance

Prior M&A studies from global markets argue that target firms experience higher wealth gains with this magnified in cross-border takeovers. Is such evidence robustly relevant in the dynamic Asia-Pacific markets? In this section, we review the articles specific to Asia-Pacific markets that examine the determinants of the choice of targets and performance gains associated with the targets.

3.1. General evidence on wealth gains to target shareholders in Asia-Pacific markets

3.1.1. Listing status of bidders

Several prior studies examine the gains to target shareholders during the acquisition announcement. However, in most studies that examine the target shareholders' gains, consideration is not given to the bidding firm's listing status. Bugeja and Sinelnikov (2012), for the first time, examine the association between Australian targets' abnormal returns and bidder firms' listing status using Australian M&A data. The authors show that the magnitude of a target firm's abnormal returns is similar, irrespective of whether it is the target of a private equity bid or a public bid. However, their additional analysis shows that target firms only suffer lower abnormal returns when private non-operating bidders make the acquisition in comparison to publicly-listed bidders. The authors argue that the results are driven by a lower bid premium paid by private non-operating bidders to target firms due to the lack of operating synergy available to them. This finding is consistent with the US study of Bargeron et al. (2008) who document that publicly-listed acquirers (private equity firms) pay a 63% (14%) higher premium to public targets. Therefore, the bidder's public status may act as an important determinant of the target firm shareholders' wealth.

3.1.2. Domestic versus foreign bidders

Bugeja (2011) examines domestic bidders versus foreign bidders and the target firm's abnormal returns. The author shows that target firms in Australia earn higher abnormal returns when foreign bidders make acquisitions rather than domestic bidders. Further analysis shows that foreign bidders end up paying a high premium for research-intensive target firms and bid for larger targets, targets with low leverage and targets operating in the resources sector. Therefore, it can be deduced that the cost of entry for foreign bidders to Australia is higher due to strict foreign takeover regulations.

3.1.3. Bid resistance

Beyond firm-level characteristics, a mix of other factors can improve the performance gain of targets. For example, target firms can improve their performance through their defensive measures. Supporting this argument, Maheswaran and Pinder (2005) examine the effect of target bid resistance on target shareholders' wealth in Australia and find that target shareholders experience higher gains in the post-announcement period when the target resists the bid.

3.1.4. Intra-industry effects

Otchere and Ip (2006) investigate the acquisition probability hypothesis in the context of intra-industry effects when foreign bidders announce the acquisition of Australian target firms. The authors show that Australian target firms in cross-border acquisitions earned significant positive abnormal returns (6.86%) around the acquisition announcement date and significant negative returns (2.04%) around the merger termination date. However, their rival firm analysis reveals that target firms' rivals also realised significant positive abnormal returns (0.74%) following the acquisition proposal and significant higher abnormal returns (1.19%) during the termination announcement. These findings complement the competing hypothesis and provides empirical support to the acquisition probability hypothesis that the likelihood of acquisition of rival firms increases following the termination of the initial acquisition proposal involving their industry counterparts.

3.1.5. Other factors

In the New Zealand setting, Marshall and Anderson (2009) show that the target earns higher announcement period abnormal returns and receives a large bid premium due to New Zealand's stronger takeover regulation (New Zealand Stock Exchange [NZSE] Takeovers Code). Consistent with the above findings, Bugeja et al. (2015) show that target firms in Australia experience increased aggressive trading and an elevated volume-synchronised probability of informed trading (VPIN) metric prior to the announcement date. Liu et al. (2017) show that market competition in Taiwan has a positive effect on post-merger performance for focused mergers while market competition destroys the acquisition outcome in diversified mergers. In the Chinese market, Jiao et al. (2018) show that the Chinese dialects of CEOs impact on merger decisions. The authors find that CEOs who use fewer rising tones and a higher pitch in their dialect are more likely to undertake M&As, while CEOs are less likely to undertake M&As if they speak dialects with more rising tones and lower pitch.

3.2. General evidence on bid premium paid to targets in Asia-Pacific markets

Generally, the evidence suggests that the cross-sectional differences in the size of the bid premium mainly depend on the corporate takeover motives. This line of enquiry is important as several managerial motives could drive the acquisition decision.

3.2.1. Takeover method choice

For example, in a recent study, Bugeja et al. (2016) explain channels such as removal of efficient target management, reserve borrowing capacity to the target firm by the bidder and reduction in the agency costs of free cash flow. Based on these arguments, these authors examine the choice of takeover methods and the premium paid to target firms listed on the ASX over the period 2000–2011. Their analysis shows that the choice of takeover method depends on target firm ownership concentration, size of the target, level of bidder' toehold and leverage. The authors find that takeover premiums are significantly lower for schemes of arrangement than in takeovers.

3.2.2. Distressed targets

In a similar vein, Bugeja (2015) investigates the takeover premium and acquisition of distressed Australian targets and reveals the financing motives of acquisitions. He argues that acquiring a distressed target increases the possibility of future performance improvement. The results show that financially distressed targets witness intense takeover competition and receive higher premiums and that bidders are less likely to use cash to acquire a distressed target.

3.2.3. Expert reports

Bugeja et al. (2005) investigates whether the preparation of an expert report has any association with target premiums when bidders have high bargaining power. His analysis indicates that bidders pay a lower premium if an expert report is required.

3.2.4. Accounting rule change

Bugeja and Loyeung (2017) examine whether the International Financial Reporting Standards (IFRS) adoption in Australia has any association with the takeover premium. Due to the shift from systematic annual amortisation to impairment testing after Australia adopted the IFRS in 2005, the authors reveal a negative association between the premium paid to target firms and the difference between a target firm's pre-acquisition market and book values. *Future research could examine whether the target's industry sector affects the bid premium paid to the target, as certain industries are more competitive than others.*

3.3. Miscellaneous evidence on shareholder' wealth gains in Asia-Pacific markets

As the importance of understanding the determinants of wealth gains grows in the Asia-Pacific region, much of the literature embarks on investigating from diverse perspectives.

3.3.1. Merger arbitrage

A few studies investigate the riskless profit associated with the performance gains of the M&A market. Hall et al. (2013) find that merger arbitrage in the Australian market for corporate control generated an annual return of 30% during 1985–2008, excluding transaction costs, compared to the 12% return on the broader market. An earlier study by Maheswaran and Yeoh (2005) investigates the risk-adjusted profitability of merger arbitrage in Australia and provides similar evidence. They find that merger arbitrage generates statistically and economically significant excess risk-adjusted returns before transaction costs but that the risk-adjusted returns are no longer statistically significant after controlling for transaction costs. They conclude that, unlike in the US, the evidence suggests that merger arbitrage in Australia is a market-neutral investment strategy.

3.3.2. Listed vs. non-listed bidders

Osborne et al. (2012) examine the investment preference of private equity bidders versus corporate bidders in relation to their choice of target firms. The authors argue that this choice depends on various firm-specific characteristics rather than on external and institutional variables. For example, private equity investors emphasise the target firm's lower stock volatility, larger long-term growth prospects and greater abnormal operating income relative to the tender/merger offer.

3.3.3. Product market

Recent studies investigate the product market performance of acquisition decisions in emerging countries. For example, Stiebale and Vencappa (2018) provide evidence that target firms experience increases in quantities, qualities and mark-ups, as well as lower marginal costs in both domestic and foreign acquisitions of Indian firms. However, the effect is more pronounced when acquirers are located in a technologically-advanced country. On average, we can conclude that gains to target shareholders are positive and significant and that the premiums paid to target firms are larger at acquisition announcements in Asia-Pacific markets.

4. Effect of governance on merger and acquisition (M&A) performance

Although the US and UK literature document the multi-faceted influence of corporate governance on acquisition success and outcome, comparable evidence is sparse in Australia and, more broadly, in the Asia-Pacific context. Prior evidence documents that acquirers from countries with better corporate governance tend to pay lower target premiums and gain more from acquisitions, whereas target firms bootstrap their governance standards and improve their performance. According to Martynova and Renneboog (2008), bidders voluntarily bootstrap their governance standards to a higher level by acquiring a target firm with better shareholder protection and governance.

In the Asia-Pacific setting, Henry (2004) examines the impact of the quality of target corporate governance and Australian bid success but fails to find any linkage. Instead, the author documents evidence supporting factors specific to takeovers as determinants of takeover outcome and success, such as: recommendations made by target directors to shareholders regarding takeover offers; the magnitude of bidding companies' pre-bid toehold shareholdings in target companies; the magnitude of bid premiums offered and the existence of offer price revisions during takeover bids; and the involvement of competing bidding companies and the industry association between bidding and target companies.

However, Dang and Henry (2016), in a recent study across eight East Asian and Southeast Asian nations, show that the target's corporate governance mechanism explains the trade-off between partial control and full control acquisition in these countries. The authors find that bidders tend to acquire partial-control targets with more independent directors, powerful CEOs and higher block-shareholdings regardless of the target country's level of economic development. These governance characteristics also lead to a lower likelihood of achieving equity acquisitions compared to situations with unmatched ownership outcomes. Their results support the supply-oriented view that targets are generally reluctant to give up corporate control until the activation of a compulsory acquisition clause. Examining East Asian and Southeast Asian countries, Dang et al. (2018) provide evidence that bidders prefer to acquire well-governed target firms irrespective of the location of targets (domestic versus foreign targets) and that domestic bidders (cross-border bidders) tend to acquire targets with poor financial characteristics (good performing performs) at the time of acquisition.

In contrast to Henry (2004); Chan and Emanuel (2011) find no strong association between governance and Australian acquirer wealth, proxied by both short-term and long-term abnormal returns. They provide some support for the view that the problem of managerial entrenchment becomes more severe in CEO duality situations and when high levels of CEO ownership are combined with a weak board. In another study, Bugeja et al. (2012) support the incentive alignment theory in relation to Australian CEOs: they show that Australian CEOs attract higher compensation in the year of, and one year after, M&A completion. Interestingly, their findings do not support the managerial power theory as they find a negative relationship between CEO compensation and managerial power. Col and Sen (2017) show that acquirers in the Indian market improve their corporate governance standard by acquiring targets from developed markets through cross-border acquisitions.

Meanwhile, Pham et al. (2015) find that Vietnamese acquiring firms earn significantly higher abnormal returns and growth performance if they have CEO duality than those acquiring firms with separate CEO–Chairman roles. However, Masulis et al. (2007) show that US acquirers earn higher returns when CEOs are not also acting as the chairman of the board. The international study by Starks and Wei (2013) investigates the quality of corporate governance and its association with the target takeover premium. They provide evidence that corporate governance affects firm value. The results show that foreign bidders must compensate target firm shareholders for exposing them to worse corporate governance regimes. This finding resolves the puzzle of the earlier evidence as to why abnormal returns are higher for US targets of foreign bidders compared to US targets of domestic bidders. These studies provide some evidence that markets behave differently in the Asia-Pacific region compared to developed financial markets such as the US and the UK.

5. Future research agenda

5.1. Cultural, socio-economic and political characteristics

In synthesising the prior evidence documented for developed economies, several new avenues and areas of M&A research recommend themselves in the Asia-Pacific region. With the cultural, socio-economic and political characteristics being very different to their counterparts in developed nations, many areas demand investigation to have a complete view of M&A success in this region. In particular, the review of the M&A literature on Asia-Pacific markets shows a lack of diversity in research streams compared to that on developed markets. More specifically, the literature in this region seems unduly silent on:

- the impact of M&A regulation;
- the role of investment banks, corporate innovation and macro-economic factors (e.g. short-run interest rate, takeover competition, industry-level regime shift, etc.);

- the effect of cultural dimensions; and
- the influence of governance mechanisms,

all of which differ significantly across various Asia-Pacific jurisdictions.

Research growth on M&A linkages with institutional, government structure and country-specific factors has been quite stable and has even tapered off in recent years in Asia-Pacific markets. The surge in Chinese M&A activities, along with China's unique fiscal, financial, enterprise, governance, ownership structure, legal systems and national institutional context, demands high-quality research on M&A decisions and performance, with this continuing to grow significantly in the future.

5.2. Governance

Future research on various dimensions of corporate governance factors such as CEO age, board connections, directors' gender and CEO retirement age could also be examined in the context of acquisition decisions and performance in emerging Asia Pacific markets. An interesting avenue for future M&A research in emerging markets would be to examine the role of strong institutional shareholdings on acquisition performance and successful execution of the acquisition decision. Evidence from this region has failed to answer many fundamental questions on wealth gains and on the impact of alternative firm-level and country-level characteristics on wealth gains. The dynamic Asia-Pacific region with its diverse institutional frameworks can provide different insights for the same hypothesis (already existing in the literature) that is associated with corporate governance, managerial compensation, product market competition, gender diversity, auditing and earnings quality.

5.3. Managerial culture

In general, the Asia-Pacific region experiences the realisation of failed synergy in takeovers. Irrespective of the cultural origins of the acquirer and the institutional framework, the hubris motive becomes the fundamental axiomatic determinant of such value-destroying takeovers. People with different cultural backgrounds have different expectations, norms and values which, in turn, influence their judgements and decisions, as well as their subsequent behaviour. Does the cultural status of managers in this region moderate the relationship between the target selection process and takeover motivation? The behavioural understanding to address this question remains unexplored in Asia-Pacific markets.

5.4. Financial constraints and liquidity

Merger and acquisition (M&A) research in this region could further extend into financial constraints, liquidity and the divergence of opinion faced by target firms, undertaking analysis of these firms on acquisition probability, success and performance.

5.5. Activism

A small field within managerial finance has begun to investigate issues involving hedge fund activism in corporate control transactions. This type of hedge fund activism work could be extended toward analyses of acquisition decisions and performance. For recent work in this direction, see Boyson et al. (2017).

5.6. Social ties

Potential exists to work on the real consequences of acquirers and targets' social ties in merger performance in this region. Some work has been done in developed markets (e.g. Ishii and Xuan, 2014), but a wide scope exists for extended types of study in Asia-Pacific markets.

5.7. Final message

In a rapidly globalising world, characterised by the need to search for new opportunities across geographies and diverse products, a significant increase has occurred in takeover activity across Asia-Pacific markets. The re-examination of different facets of the evidence in this region can enrich our understanding of the robustness and replicability that could well have non-trivial managerial implications. Our review explored the literature with an eye towards identifying research questions that have not yet been fully addressed in the Asia-Pacific setting. These questions may help to resolve two paradoxes that emerged from the literature review, namely, the M&A success paradox and the synergy paradox. Based on this literature review, we argue that immense potential exists for future research in the area of M&As in the Asia-Pacific region.

6. Conclusion

This paper tracks M&A literature in global markets from 2005 onwards, with a specific emphasis/focus on M&As in the Asia-Pacific region, seeking what we know and what we do not know. Prior to this period, M&A evidence mostly focuses on value creation, efficiency gains and the role of deal characteristics in performance gains. More recently, the exploration of M&A performance gains has undergone a complete shift. In the European and US markets, M&A research explores the different dimensions of M&A success and, in particular, the impact of firm characteristics and country characteristics on performance gains. In contrast, the Asia-Pacific evidence is still largely confined to M&A efficiency and wealth effects.

Our review encompasses over 100 articles published in leading accounting and finance-related journals. Although shareholder wealth effects continue to remain inconclusive, a clear consensus on several dimensions emerges from studies conducted in developed markets. First, shareholder wealth depends on several target and bidder characteristics, such as the level of liquidity offered by the target; the target pre-acquisition run-up; the target reference point price; divergence of opinion on a firm's value; the target firm's accounting quality; prior bid success; public status of acquiring firms; bidder characteristics; relative leverage between acquirer and target; acquisition screening process; overvaluation of stock; industry performance; debt level; acquisition experience; the role of anti-takeover laws; institutional shareholding; directors' social connections; directors' investment banking experience; and the granting of unscheduled options.

Second, acquisition success depends on the target's liquidity; research and development (R&D) expenses; product market competition; acquisition percentage; market prices and valuation; voluntary disclosure; common and shared auditor between acquirer and target; and auditor size. Third, managerial acquisitiveness depends on executive age; gender; CEO compensation; CEO overconfidence; accounting conservatism; tax benefits; and target earnings quality.

Given the M&A knowledge base accumulated in developed market settings, we argue for the serious need to explore its robustness and reliability in Asia-Pacific markets. Our literature review also provides a clear path for identifying further research areas and scope for addressing the important 'gaps' in evidence for Asia-Pacific M&As. However, such investigations will always be of far more interest if they go well beyond mindless 'exploratory' exercises and, instead, are well-founded in strongly motivated theoretical arguments that, for example, incorporate meaningful institutional differences in ways that produce interesting, nuanced hypotheses.

Appendix A. Distribution of Articles Reviewed in different Disciplines

Panel A: All Articles (90 articles +2 books)

Journal Categories	ABDC A* Ranked Journals	ABDC A Ranked Journals	ABDC B Ranked Journals	ABDC C Ranked Journals
Finance Journals	23	42	1	0
Accounting Journals	2	10	0	0
Management Journals	7	0	1	0
Others	4	0	0	0
Total Articles	**36**	**52**	**2**	**0**

Panel B: Articles Published on Developed Market (21)

Journal Categories	ABDC A* Ranked Journals	ABDC A Ranked Journals	ABDC B Ranked Journals	ABDC C Ranked Journals
Finance Journals	10	6	0	0
Accounting Journals	1	0	0	0
Management Journals	1	0	0	0
Others	3	0	0	0
Total Articles	**15**	**6**	**0**	**0**

Panel C: Articles Published on Asia Pacific and Emerging Market (60)

Journal Categories	ABDC A* Ranked Journals	ABDC A Ranked Journals	ABDC B Ranked Journals	ABDC C Ranked Journals
Finance Journals	8	36	1	0
Accounting Journals	1	10	0	0
Management Journals	2	0	1	0
Others	1	0	0	0
Total Articles	**12**	**46**	**02**	**0**

Panel D: Articles Published on Global Market (9)

Journal Categories	ABDC A* Ranked Journals	ABDC A Ranked Journals	ABDC B Ranked Journals	ABDC C Ranked Journals
Finance Journals	5	0	0	0
Accounting Journals	4	0	0	0

Management Journals	0	0	0	0
Others	0	0	0	0
Total Articles	**9**	**0**	**0**	**0**

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