Choice of Acquisition Form, Domestic Liquidity Costs for US Cross-listed Firms, and Convergence in Information Environment: An Investor Protection Perspective

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A dissertation submitted in fulfilment

of the requirements for the degree of

Doctor of Philosophy in Finance

Department of Commerce

Massey University

1 November 2008

Acknowledgements

I would like to thank Professor Henk Berkman for being an excellent supervisor. I am immensely grateful to him for his outstanding guidance, encouragement and friendship throughout this PhD. My sincere thanks also go to Professor Paul Koch, Professor Charles Corrado, Professor Lawrence C. Rose, Professor Ben Jacobsen, and Dr. Oz Dincer for their support and valuable advice.

I am grateful to staff in the Department of Commerce for being very helpful, friendly and supportive. I appreciate all valuable comments from participants at the Brown Bag seminars, the 2006 Asian Financial Management Association Conference, the 2007 Eastern Finance Association Conference, and the 2008 New Zealand Finance Colloquium. I also want to warmly thank Mr. Kevin Cheng and his data team at the Securities Industry Research Centre of Asia Pacific (SIRCA) for their data support.

My deep gratitude goes to my sister, Nguyen Hoang To Nga, and my brother-in-law, Nguyen Quoc Khanh, for their financial support during my first years in New Zealand. Special thanks go to my parents whose love and encouragement are invaluable for the completion of this dissertation. Finally, no words are enough to express my love and thanks to my wife, Trang, who has shared with me all the ups and downs during this PhD and who has given me a beautiful little daughter, Jazmine. I would like to dedicate this PhD dissertation to Dad, Mom, Trang and my little Jazmine.

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Synopsis

This dissertation contains three empirical studies that examine the effect of investor protection on three different aspects of corporate governance: mergers and acquisitions, US cross-listings, and convergence of information environment around the world.[1]

The first study investigates the relation between investor protection and the choice of acquisition form (partial versus full acquisition). I argue that if private benefits are a motivation for mergers and acquisitions, an acquirer is more likely to bid for a controlling fraction (but not a hundred percent) of a target firm in countries with weak investor protection because in these countries private benefits of control are an important asset. The empirical results support this argument: compared to full mergers, partial acquisitions are the preferred form of acquisition when target countries do not effectively protect minority investors. Partial acquisitions are also more common among foreign acquirers from countries with poor legal systems. Finally, I show that firm-level corporate governance of the target firm is negatively related to the likelihood of partial acquisition.

The second study examines the effect of investor protection on domestic liquidity for cross-listed firms. If US cross-listing can improve a firm's information environment because of more stringent disclosure requirements in the US, I expect the information

[1] The second and third empirical studies are co-authored work with my supervisor, Professor Henk Berkman. For consistency, I use the first person 'I' throughout the dissertation.

improvement to be reflected in a reduction in domestic liquidity costs. The empirical results are consistent with this prediction: local bid-ask spreads and price impact (a proxy for the cost of adverse information) significantly decrease while local trading volume significantly increases one year after US cross-listing. In addition, the liquidity improvement is larger for cross-listed firms that are from poor investor protection countries, and that are listed on the NYSE. The results in the second study are consistent with the "bonding" argument by Coffee (2002).

The third study tests Coffee's (1999) prediction of a convergence in corporate governance around the world. Since information environment is a key factor of corporate governance, it is important to see if there is a convergence in information environment across countries over the past two decades. Using various common proxies for information environment, I show that the quality of information environment generally improves through time, but the improvement is larger for developed markets and countries with better institutional quality.

In the third study, I also reproduce the main results in Bailey, Karolyi and Salva (2006), and Fernandes and Ferreira (2008). These studies report similar divergence in information environment for cross-listed firms post-US-listing, but fail to control for the quality of information environment in the domestic market. After we control for this market effect, we do not find support for their results: there is no improvement in information environment for cross-listed firms, and no difference in the change between developed and emerging countries.