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Target firm takeovers and corporate governance: Evidence from BRICS.

Adquisiciones de empresas objetivo y gobierno corporativo: evidencia de los BRICS

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ABSTRACT

The study analyses the role of various corporate governance mechanisms in the takeovers of target firms in BRICS countries. Based on a sample of 837 M&A deals that occurred between 2010 and 2022, the results show that corporate governance mechanisms significantly influence both the likelihood of takeover and M&A performance. Board attributes such as size, independence and gender diversity have a favourable impact on the likelihood of takeover completion as well as performance. Among ownership attributes, activist institutional investors such as sovereign wealth and hedge funds and private equity/venture capitalists have a consistent and strong influence on both takeover completion success and performance. While other investors such as mutual and pension funds and insurance firms do not seem to have a strong relationship. Lastly, Environmental, Social & Governance (ESG)-linked CEO compensation is strongly related to both takeover completion likelihood and performance.

RESUMEN

El estudio analiza el papel de diversos mecanismos de gobierno corporativo en las adquisiciones de empresas objetivo en los países BRICS. Basado en una muestra de 837 acuerdos de fusiones y adquisiciones que tuvieron lugar entre 2010 y 2022, los resultados muestran que los mecanismos de gobierno corporativo influyen significativamente tanto en la probabilidad de adquisición como en el desempeño de las fusiones y adquisiciones. Los atributos del consejo de administración, como el tamaño, la independencia y la diversidad de género, tienen un impacto favorable en la probabilidad de que se complete la adquisición, así como en el desempeño. Entre los atributos de propiedad, los inversores institucionales activistas, como los fondos soberanos y los fondos de cobertura, y los capitalistas de riesgo o de capital privado, tienen una influencia fuerte y consistente tanto en el éxito como en el desempeño de las adquisiciones. Mientras que otros inversores, como los fondos mutuos y de pensiones y las empresas de seguros, no parecen tener una relación sólida. Por último, la remuneración de los

directores ejecutivos vinculada a cuestiones ambientales, sociales y de gobernanza (ESG) está fuertemente relacionada tanto con la probabilidad de finalización de la adquisición como con el desempeño.

INTRODUCTION

Mergers & Acquisitions (M&A hereafter) are arguably one of the most controversial corporate events as it typically leads to potential agency conflicts between the firm management and its shareholders. During a takeover, the primary motive of shareholders is to maximize firm value (Cornett et al., 2003). Whereas managers are concerned about their share in terms of better pay or position post-deal completion (Cornett et al., 2003). This scenario leads to a heightened agency conflict between the two parties. Consequently corporate governance (CG hereafter) mechanisms assume paramount importance in addressing this issue. Several authors have examined the relationship between various CG mechanisms and M&A (Amar et al., 2011; Amewu and Paul Alagidede, 2021; Clarkson et al., 2008; Cotter et al., 1997; Defrancq et al., 2020; Ma, 2019; Tampakoudis et al., 2018). However, a large number of them have focused their attention on acquirer firm agency issues while ignoring the role of CG mechanisms in the case of target firms. The increased attention could be explained by the negative or zero abnormal returns being accrued to acquirers and targets making positive abnormal returns owing to substantial premiums (Shah and Arora, 2014). However, many authors still argue that target firm shareholders may be earning only sub-optimal returns or missing out on good takeover offers due to managerial self-interest (Bauguess et al., 2009; Clarkson et al., 2008; Henry, 2004; Redor, 2015; Stulz, 1988).

Stulz (1988) argues that the takeover of target firms represents a significant risk for its management. Though shareholders may earn positive returns because of higher premiums, for the management, it poses a threat in terms of termination or lower compensation or reduced status and power post the deal. Therefore, target firm management may be reluctant to accept value creating M&A deals if it jeopardizes their existing position. Moreover, if the target management is not able to oppose it, they may structure the terms of the deal in such a manner that protects their position, such as agreeing to a lower bid premium in exchange for seats on the board or higher compensation.

Further, it is not only the target firm management which is at risk during a takeover. The firm's board of directors, whose primary responsibility is to protect the shareholder's interests, can also become self-interested as they also risk losing their careers and reputation. Clarkson et al. (2008) argue that it is plausible that the non-executive and independent directors may act contrary to their responsibilities during a takeover. This is because a successful takeover also means a loss in their reputational capital or fewer future seats on the board of companies. Thus, there can be possibilities where even the board of directors may oppose M&A deals or side with the management and agree to lower gains for the shareholders.

Consequently, considering the arguments outlined above, it becomes crucial to examine the role of CG mechanisms on target firm value creation in the context of takeovers. Accordingly, there are two important research questions that the study attempts to address: (1) What is the role of target firm CG mechanisms in

successfully completing the M&A deal? (2) What is the impact of CG mechanisms on the value creation for target firm shareholders?

To address the above issues, a sample of 837 M&A deals from the five largest emerging economies (Brazil, Russia, China, India and South Africa –BRICS) of the World is considered. These economies have been considered due to two primary reasons. First, these countries have witnessed rapid industrialisation and economic growth in the past few decades. Together, they contribute nearly 25 per cent to the World's GDP (Jash, 2017) and account for over 40 per cent of the World's total foreign reserves (Phiri, 2018). Further, the M&A activity in these economies is also on the rise due to increased globalization. A report by (Merger Market, 2019), states that M&A activity in these countries grew significantly with a total of 6,031 M&A deals worth $1.5 trillion. The compound annual growth rate (CAGR) in terms of deal volume was 5.6% and 10.4% in terms of deal value between 2010 and 2019. Given their rising global significance, literature still seems to be skewed towards few developed countries such as the US or UK while ignoring these emerging countries. Second, emerging economies also present a unique setting to examine the issue. As in most developed countries, the primary agency conflict is usually between the firm managers and its shareholders (Su et al., 2008). Conversely, in emerging economies, the agency issue occurs between the majority and minority shareholders (Peng and Sauerwald, 2013; Young et al., 2008). This is because the ownership of firms in emerging economies is concentrated in a few hands such as the family members or the state. Further, the legal and regulatory environment in these economies is also not robust enough to safeguard minority investors' interests (Young et al., 2008). Under such an environment, the majority shareholders have greater ability and power to misappropriate firm resources thus causing severe agency issues. Therefore, examining the issue under such a scenario can provide deep insights into the real effectiveness of CG mechanisms in maximising shareholder wealth in the context of takeovers.

In terms of contribution, the study attempts to address the issues highlighted above. Firstly, it contributes to the growing literature on corporate governance and M&A. As most authors have concentrated their attention on acquirer firm agency issues, by examining the role of CG mechanisms in target firms' value creation, the study attempts to fill an important research gap in the literature. Secondly, the number of studies in emerging economies is still scarce compared to developed market studies. Therefore, the study contributes to the growing literature on corporate governance and M&A in emerging economies. Further, a comprehensive study considering the major emerging economies of the World will shed light on the effectiveness of CG mechanisms in minimizing agency conflicts and improving shareholders' value. Thirdly, the study also offers important insights by considering relatively less-explored CG mechanisms. For instance, the governance role of activist institutional investors such as hedge funds, sovereign wealth funds and private equity/venture capitalists has also not been explored much in the literature. Most studies primarily consider banks, mutual and pension funds when analysing the role of institutional investors (Cornett et al., 2007; Drobetz et al., 2021; Elyasiani and Jia, 2010; Wang and Sun, 2022). Similarly, CEO compensation is also a crucial governance mechanism. However, the major focus has been attributed to variable or performance-based compensation while ignoring other important metrics such as ESG-based pay (Dorata and

Petra, 2008; Fich and Shivdasani, 2005; Jiang et al., 2020; Raithatha and Komera, 2016). Further, the role of gender diversity also seems to be in a nascent stage, especially in the context of M&A (Aggarwal et al., 2019). Thus, by taking into account the role of these mechanisms, the study attempts to provide novel evidence on the effectiveness of these mechanisms that can potentially shape corporate governance policies and practices. Finally, the findings of the study offer important practical implications for various stakeholders such as policymakers, corporate managers, and investors in BRICS as well as other emerging economies. Specifically, the findings will add to their understanding of the importance and effectiveness of CG mechanisms in the context of target firm takeovers. Policymakers and regulators can refer to the results of the study as a guide to formulating rules and regulations pertaining to corporate governance and shareholder protection. Similarly, the findings can help firm managers and small investors understand the effectiveness of CG mechanisms in the firm's decision-making process and its influence on the selection of corporate strategies.

The paper is structured as follows; section two discusses the past literature on the subject and hypothesis development. Section three elaborates on the data collection sources, variables description and methodology adopted for the study. Section four discusses the empirical findings of the study. Section five provides a discussion on the findings and finally section six concludes the study.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The past literature on M&A indicates that the majority of M&A transactions fail (Akben-Selcuk, 2015). One dominant reason identified for such a high failure rate is managerial self-interest. As with takeovers, managers especially of target firms, stand to lose their job, status and power. Therefore, they tend to take action to further their interest out of the deal while ignoring the interest of shareholders. Therefore, to prevent such actions and safeguards investor’s interest various CG mechanisms are employed. The below sections discuss the literature on CG mechanisms related to board, ownership and compensation structure that is used to oversee managerial conduct and maximise firm value.

Board composition: The corporate governance literature considers the board of directors a central governance mechanism that oversees managers' conduct. The job of the board of directors becomes even more critical in the situations of M&A because such deals are approved and vetted by the directors, and they shoulder the accountability for their success or failure (Gaughan, 2013). Therefore, the way a board is composed in terms of its size, independence, leadership and diversity determines its effectiveness. If structured properly, it will help maximise the firm's value.

Board size: An essential aspect of the board composition that can impact its ability to operate effectively is its size, i.e. the number of members on the board (both inside and outside). It is often contended that a board should consist of a small number of individuals. Jensen (1993) and Yermack (1996) argue that a small board consisting of seven to eight members is effective as it has more oversight capabilities. Small boards can also optimise the decision-making processes due to reduced coordination and communication problems (Moscovici and

Zavalloni, 1969; Kogan and Wallach, 1966). Consistent with the above arguments, Eisenberg et al. (1998); Garg, (2007) and Ghosh and Indira (2002) empirically find that firms with smaller boards are associated with higher firm valuations.

Similarly, Amar et al. (2011) and Tampakoudis et al. (2018) report an inverse relationship between board size and shareholder returns during M&As.

Conversely, Dalton et al. (1999) argue that larger boards can benefit the firms as they represent more experience and knowledge. Thus can offer better advice to the firm management. Moreover, the boards of directors also have links to the external environment. Therefore, with more members on the board, firms will have better access to various resources leading to improved performance and corporate governance (Jackling and Johl, 2009). Accordingly, in line with these arguments, Al Farooque et al. (2020) finds a positive impact of board size on firm performance. Similarly, Bauguess and Stegemoller (2008) reported that firms with larger boards make more M&As and generate better returns for their shareholders.

On the basis of the above discussion, it is expected larger boards will be beneficial for the target firm shareholder. As these firms are being subsumed under the acquirer firm administration, the decision to acquire will require considerable deliberation and discussion, which can be adequately fulfilled by a larger board. Thus, the following hypothesis has been proposed:

H1A: Board size is positively related to the completion of successful M&A deals.

H1B: Board size positively contributes to the value creation for target firm shareholders both in the short and long term.

Board independence: Independent directors are a critical internal governance mechanism that can protect the interest of all the stakeholders. They are the ones that do not hold any kind of material financial or non-financial relationship with the firm or its management (Byrd and Hickman, 1992). Due to such unbiased nature of these directors, they are expected to have better oversight and monitoring abilities that can contribute positively to the firm value and growth (Cheng, 2017). Consequently, in support of the above view, many authors report that with the presence of independent directors, agency costs are minimised, and shareholder value is maximised (Clarkson et al., 2008; Cotter et al., 1997; Defrancq et al., 2020). During takeovers, where there are very high chances of managerial expropriation, Clarkson et al. (2008) find that shareholders receive higher bid premiums when the board consists of a majority of independent directors. Cotter et al. (1997) also report that an independent target board generates 20% more returns for shareholders during tender offers than a non-independent board. Accordingly, the above results suggest that independent directors play an effective role in protecting the interest of shareholders while simultaneously keeping a watch on the firm's management.

However, in contrast to the above findings, a few authors also find an adverse role of independent directors in firm value creation (Bange and Mazzeo, 2004; Faleye et al., 2011). Bange and Mazzeo (2004) report lower bid-premiums for target firm shareholders when there is a majority of independent directors on the board. They argue that during takeovers, independent directors are faced with the risk of losing their existing and

potential directorships. As a result, to protect their positions, they prefer to consider their own interest above the shareholders' interest and may oppose takeovers even if they result in more value creation. Faleye et al. (2011) argue that with more independent directors, the board can become too monitoring intensive. As a result, the advising needs of the firm are compromised. Accordingly, the authors find that firms with majority independent boards contribute negatively to shareholder returns during M&A as the costs of inadequate advice outweigh the benefits of increased monitoring.

Based on the above discussion, it is proposed that independent directors will contribute positively to shareholders' value during M&A. Though there are inconclusive results, a positive relationship is expected because firms in emerging economies are controlled mainly by families or the state. In the presence of concentrated ownership structures, independent oversight by such directors is of utmost importance as there are higher chances that the majority shareholders may expropriate wealth from minority shareholders during a takeover. Therefore, the following hypothesis has been proposed.

H2A: Board independence is positively related to the completion of successful M&A deals.

H2B: Board independence positively contributes to the value creation for target firm shareholders both in the short and long term.

BOARD LEADERSHIP

Prior studies suggest that the leadership structure of the board is of particular importance to the governance of the firm (Baliga et al., 2016; Finkelstein and D'aveni, 1994; Pham et al., 2015; Rechner and Dalton, 1991). It is often contended that management domination and abuse of power exist when the CEO of the firm also acts in the capacity of the chairmen of the board (Core et al., 1999). Agency theorists propose that the combined position encourages managerial entrenchment as the CEO enjoys undisrupted power in taking major decisions for the firm (Rechner and Dalton, 1991). Reinforcing the view, Fama (1980) asserts that duality signals the absence of separation of decision management and control, making it difficult for independent directors to perform their monitoring functions. Accordingly, many authors have reported an adverse impact of CEO duality on firm value and growth (Das and Dey, 2016; Puni and Anlesinya, 2020; Shao, 2019). In the context of M&A as well, Teti et al. (2017) find that acquirer firm shareholders earn lower returns when there is CEO duality.

However, in contrast to the above arguments, Finkelstein and D'aveni (1994) view CEO duality as a complex issue and treat it as a double-edged sword. Grounding their arguments on organisation and leadership theory, they consider CEO duality essential for strong decision-making and propose that CEO duality facilitates unity of command at the top level. Similarly, stewardship theory posits that with CEO duality managers' motives are aligned with that of shareholders. Consequently, they will take decisions that will lead to superior firm performance. In line with this view, Pham et al. (2015) find that there exists a clear line of command and a quick response to strategic events in firms with combined roles. Further, Bange and Mazzeo (2004) report that the target

firm's shareholders earn superior returns with CEO duality and are also more likely to receive a bypass offer suggesting that CEO duality can be beneficial for target firms in M&A.

Though strong leadership and a clear line of command are essential for target firms in M&A transactions, it is proposed that CEO duality will contribute adversely to target firm shareholders' wealth. As with the presence of concentrated shareholding and weak legal rights in emerging economies, combining the roles of CEO and Chairman may intensify the possibilities of increased shareholder expropriation and agency conflicts. Thus the following hypothesis has been proposed:

H3A: CEO duality is positively related to the completion of successful M&A deals.

H3B: CEO duality negatively contributes to the value creation for target firm shareholders both in the short and long term.

GENDER DIVERSITY

Other than size, independence and leadership, the composition of the board in terms of its diversity is also identified as a significant factor that can impact its effectiveness. The resource dependency view posits that directors help in firm value creation by facilitating access to various resources such as capital, suppliers and customers, among others (Pfeffer, 1991). Similarly, Miller and Triana (2009) argue that gender diversity on the board can bring additional intellectual capacity that may lead to improved decision-making and stimulate board activism. Further, Redor (2015) suggests that diversity on the board can encourage creativity and innovation towards problem-solving by bringing in a new and greater breadth of perspectives that are not likely to be discussed by a homogeneous board. Accordingly, in line with the above views, many empirical studies find a positive and significant influence of female board members on firm performance (Ahmed and Ali, 2017; Ali et al., 2014; Campbell and Mínguez-Vera, 2008; Srinidhi et al., 2011). In the context of M&A as well, Tampakoudisa et al. (2020) find that with female representation on board, acquirer firms make significantly more abnormal returns. Moreover, they also report a stronger association in the cases where the board comprises more than 25 per cent female members.

On the other hand, a few authors argue that diversity can create problems for the firm and its shareholders. Rubin and Brown (1975) show that males are better at negotiating and maximising their earnings compared to females and thus provide better outcomes. Similarly, Lau and Murnighan (1998) posit that diversity can cause practical problems associated with integration and communication, creating conflicts among board members.

The above discussion reveals that the studies generally indicate that gender diversity is beneficial for value creation and growth. Therefore, the following hypothesis has been proposed:

H4A: Board gender diversity is positively related to the completion of successful M&A deals.

H4B: Board gender diversity positively contributes to the value creation for target firm shareholders both in the short and long term.

Institutional ownership: A growing number of studies have recognized the role of institutional investors in the governance of firms (Ma, 2019). These investors are large shareholders that invest in other firms on behalf of their clients. Concerning their role in the governance of the firms, it is argued that these investors are effective monitors and they can better oversee the managerial conduct during M&A deals. This is because institutional investors are generally well-informed and have the necessary skills and knowledge to exercise their rights (Cornett et al., 2007; Duggal and Millar, 1999). Further, significant stakes also enable these investors to have a greater say during the M&A deal discussion and afford the high cost associated with monitoring the investee firm (Andriosopoulos and Yang, 2015).

Accordingly, many authors report a positive role of institutional investor ownership in the governance and performance of the firms (Cornett et al., 2007; Hsu and Wang, 2014; Kim et al., 2016; Lou et al., 2020; Tee, 2019). However, some authors have also demonstrated a negative impact of institutional ownership (Ning et al., 2014; Ruiz-Mallorquí and Santana-Martín, 2011), while others have found an insignificant impact (Agrawal and Knoeber, 1996; Faccio and Ameziane Lasfer, 2007; Karpoff et al., 1996). The explanation for these conflicting findings lies in their heterogeneous nature. Dasgupta et al. (2021) and Edmans (2014) argue that the monitoring role of institutional investors is dependent upon several factors. These include their ownership size, type, preferences and relationship with the investee firm, which can influence their incentives to govern. Therefore, the characteristic of the institutional investors themselves is identified as a key determinant influencing their governance duties.

With regard to the heterogeneity of institutional investors, the existing literature seems to be limited in its scope with most researchers focusing on only a few types of institutional investors. The evidence indicates that the majority of the authors have primarily considered traditional institutional investor types such as mutual funds, banking firms, insurance companies and pension funds when analysing their heterogeneous nature (Badhania et al., 2022; Cornett et al., 2007; De-la-Hoz and Pombo, 2016; Elyasiani and Jia, 2010; Ferreira and Matos, 2008; Lin and Fu, 2017; Lou et al., 2020; Ma, 2019; Tee, 2019). These investors' types are usually sub-classified into two categories viz. pressure-sensitive and pressure-insensitive institutional investors based on their relationship with the investee firm. Brickley and Lease (1988) posit that pressure-sensitive institutional investors are the ones that have some sort of association with the investee firm in the form of any financial or non-financial business transactions and are more susceptible to management pressures. Due to this conflicted nature and sensitivity to management's pressure, they are termed as pressure-sensitive or grey institutional investors and mainly consist of insurance and banking companies (Almazan et al., 2005; Cornett et al., 2007).

On the other hand, institutions that do not have such relationships with the investee firms are referred to as pressure-insensitive institutional investors or independent institutional investors (Almazan et al., 2005; Cornett et al., 2007; Lin and Fu, 2017). This category of investors generally consists of institutions such as mutual funds and public pension fund companies. As they are independent in nature with no interest in the investee firms, such investors are likely to play a positive role in shaping a firm's corporate governance structure (Chen et al., 2007; Massa et al., 2011).

As argued earlier there are other types of institutional investors as well that have not yet received considerable attention in the literature, particularly in the context of emerging economies (Dasgupta et al., 2021). These include hedge funds (HFs) and private equity/venture capital funds (PE/VCs). Akin to pressure-insensitive institutional investors, these investors are also independent of investee firms. Though, in comparison to the traditional investor types, they generally hold a minor stake in the investee firm. It is argued that they can wield a disproportionate influence on the governance and performance of the firms (Kuvandikov et al., 2021). For instance, similar to mutual funds, HFs and PE/VC firms also pool money from investors (high net-worth individuals), invest it and manage the portfolio. However, unlike mutual funds that charge a flat asset under management fee, such funds have a complicated fee structure that varies significantly with their portfolio performance (Achleitner et al., 2010; Fung and Hsieh, 1999). Metrick and Yasuda (2010) argue that HFs and PE/VCs are typically entitled to an incentive fee of at least 20% of the fund's annualized returns. Therefore, to the extent that activism is a value-increasing activity, HFs and PE/VCs will have greater incentives to monitor their investee firms. In addition, these investors are also exempted from several regulatory obligations that are primarily meant for traditional investment firms. For instance, HFs and PE/VCs can remain invested in their target firms for an extended period of time and requires advance withdrawal notice from investors as compared to mutual and pension funds, which are subject to liquidity constraints (Clifford and Lindsey, 2016). This allows them to run successful activist campaigns as compared to mutual and pension funds, which are faced with strict liquidity concerns (Aragon, 2007; Bhide, 1993; Clifford and Lindsey, 2016; Coffee, 1991). Moreover, these funds are also allowed to use debt financing heavily, enabling them to increase their effective ownership in target firms (Afsharipour, 2015). As a result, with greater flexibility from the use of leverage, liquidity relaxations and incentives for fund managers, HFs and PE/VCs can pursue investment strategies that are often not open to traditional institutional investors. Against this background, improving corporate governance can prove to be a profitable strategy for both HFs and PE/VCs (Achleitner et al., 2010; Kedia et al., 2016).

Similarly, sovereign wealth funds (SWFs) are another type of institutional investor that has also remained outside the ambit of existing studies. SWFs are investment vehicles that are either owned or backed by a sovereign state rather than any group of private investors (IMF, 2008). Like HFs and PE/VCs, SWFs are also subject to fewer regulatory controls but also benefit from state-backed funding availability (Carpantier and Vermeulen, 2018). Drawing from the resource dependency theory, it is argued that they possess more proficient skills and capabilities to monitor their target companies compared to other investors (Audy Martínek, 2021). Empirically, Dewenter et al. (2010) document events that indicate SWFs monitoring activities for more than half of their portfolio firms, concluding that SWFs pursue an active role as firm-level monitors. In similar vein, Fernandes (2014) shows that firm performance and operating profitability increase following SWFs investment.

Given the above arguments, it is expected that SWFs, HFs and PE/VCs can also play a vital role in the functioning of the firms. Therefore, we propose a novel categorisation of these types of investors' viz. activist pressure-insensitive institutional investors. Due to their independent nature and advanced skills & abilities, they can proactively

monitor the firm management. However, due to their greater incentives, such as fund performance-based pay, lesser regulatory requirements and state-backed funding, such investors are likely to be more watchful of their investee firms and their management and may react more aggressively toward corporate governance issues. Therefore, the following hypotheses have been proposed:

H5A: The ownership by pressure-sensitive institutional investors (banking and insurance companies) is negatively related to the completion of successful M&A deals.

H5B: The ownership by pressure-sensitive institutional investors (banking and insurance companies) negatively contributes to the value creation for target firm shareholders both in the short and long term.

H6A: The ownership by pressure-insensitive institutional investors (mutual funds and public pension funds) is positively related to the completion of successful M&A deals.

H6B: The ownership by pressure-insensitive institutional investors (mutual funds and public pension funds) positively contributes to the value creation for target firm shareholders both in the short and long term.

H7A: The ownership by activist pressure-insensitive institutional investors (HFs, PE/VCs and SWFs) is positively and more strongly related to the completion of successful M&A deals.

H7B: The ownership by activist pressure-insensitive institutional investors (HFs, PE/VCs and SWFs) positively and more strongly contributes to the value creation for target firm shareholders both in the short and long term.

CEO compensation: Datta et al. (2001) posit that executive compensation contracts can be effectively utilised to align managerial interests with that of shareholders. However, there are two opposing viewpoints pertaining to executive compensation contracts. The widely used perspective relates to the optimal contracting theory, which advocates performance-linked compensation contracts (Jiang et al., 2020). According to this, when the executives are incentivized based on the company's performance, they will be more prudent in making strategic decisions about the company (Cole and Mehran, 1998; Jensen and Meckling, 1976; Shleifer and Vishny, 1997). The rationale is that when the wealth of the executives is linked with the firm performance, they can directly experience the consequences of their actions and therefore are more likely to avoid bad decisions (Guay, 1999). In line with this view, Datta et al. (2001) report that high-performance linked compensation firms generate more abnormal returns during acquisitions as compared to low-performance linked compensation firms. Similarly, Amewu and Alagidede (2021) find that equity-based compensation leads to positive post-acquisition performance of the acquiring firms.

On the other hand, the second perspective emerged from managerial power theory (MPT), which has questioned the validity of performance-linked compensation contracts in aligning the interests of shareholders and managers. Drawing from the MPT, Bebchuk and Fried (2012) posit that compensation contracts may create agency problems instead of addressing them. They argue that when the other governance mechanisms are inefficient or when the external market forces are underdeveloped, managers may use their influence to structure the compensation contracts that greatly benefit them, thus aggravating agency conflicts. Consistent with this view,

Burns and Kedia (2006) find a positive relationship between the propensity to misreport and performance-linked compensation. Similarly, Aboody and Kasznik (2000) and Yermack (1997) find that stock options are not granted randomly to the executives rather, they are timed in such a manner that the executive can profit immensely by exercising their rights.

Based on the above discussion, the following hypothesis has been proposed:

H8A: CEO performance-linked compensation is positively related to the completion of successful M&A deals.

H8B: CEO performance-linked compensation positively contributes to the value creation for target firm shareholders both in the short and long term.

In addition to the performance-linked compensation, another important metric-ESG (Environmental, Social and Governance)-linked pay is also been used increasingly by many firms around the World to oversee managerial conduct. As corporations have realised the importance of societal issues and their impact on business they have been paying increasing attention to corporate social responsibility (CSR). According to the Governance and Accountability Institute[1], in 2019, 90% of S&P500 companies published sustainability reports, indicating a significant rise from 2011 when only 20% of these companies did so. This increase can be attributed to the growing demand from investors and other stakeholders to hold corporations accountable for their social and environmental impact. In 2020, sustainable and responsible investing strategies managed around 33% of all investment assets under professional management in the USA, reflecting a 42% increase from 2018[2]. Though the primary motive is to incentivise managers to pro-actively engaged in CSR (corporate social responsibilities) and ESG-related activities, recent academic studies have consistently demonstrated a positive correlation between corporate social performance and firm value (Ferrell et al., 2016). In the context of takeovers as well, there can be an important role of ESG and its related aspects.

The success of M&A largely depends on stakeholder actions during the approval and integration processes (Anderson et al., 2012), which are often subject to challenges and support from various stakeholders (Arouri et al., 2019; Dessaint et al., 2017; Masulis et al., 2020). This aligns with the instrumental stakeholder view, which suggests that ESG-focused firms will have a competitive advantage through the trust of stakeholders and their support (Jones, 1995). As a result, deals announced by such firms are more likely to receive support from stakeholders, contributing to a less uncertain integration process (Arouri et al., 2019), higher efficiency (Deng et al., 2013; Liang et al., 2017), and ultimately higher synergies.

Accordingly, we propose the following two additional hypotheses:

H9A: CEO ESG-linked compensation is positively related to the completion of successful M&A deals.

H9B: CEO ESG-linked compensation positively contributes to the value creation for target firm shareholders both in the short and long term.

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[1] https://www.ga-institute.com/research-reports/flash-reports/2020-sp-500-flash-report.html

[2] 020 report on US sustainable and impact investing trends available at: https://www.ussif.org/pubs

DATA AND METHODOLOGY

Data: Table I depicts the entire data collection process. The process started with the sampling of M&A deals that are completed between 1st January 2010 and 31st December 2022 in BRICS countries. The widely used database, Refinitv Securities Data Company (SDC) M&A platinum, is used to identify the initial sample of deals (Hossain, 2015). At the start, a total of 2659 deals are identified. Thereafter, certain filtering criteria are applied to arrive at the final sample of the study. First, only deals where the transaction value is greater than $1 million are filtered out. This criterion is applied as large deals often attract the attention of market participants (Teti et al., 2017) and also the value generated for shareholders is evident in large transactions (Asquith et al., 1983). Using this criterion, 487 deals are removed. Second, the acquisition where the attempt is to acquire at least 51% of the target is considered. This criterion is used as the likelihood of managerial expropriation is more in transactions where the deals result in loss of control. Thus, it provides an ideal setting to investigate the effectiveness of CG mechanisms. Using this, a total of 405 deals are filtered out. Third, following previous studies, target firms belonging to the financial and utilities sectors are removed as they are often subject to strict regulations and have different CG requirements. With this screening criterion, 376 deals are removed. A total of 1391 deals were considered for the data collection on the independent and dependent variables of the study. The data on independent variables is collected primarily from two databases viz. Bloomberg and Capital IQ due to their comprehensive coverage (Ilyas et al., 2022) and availability of companies' fundamental and financial data (Tee, 2021). In the case of any missing data, the annual reports are also considered. Thus, basis the availability of complete data, 837 transactions constitute the final sample of the study.

Table I: Sample Selection

Particulars	Number of deals
Total number of deals identified between 1st Jan 2010 and 31st Dec 2022	2659
Less: Number of deals with acquisition stake below 51 per cent	487
Less: Number of deals with a deal value less than $1 million	405
Less: Number of deals where target firms belong to the financial and utilities industry	376
Less: Number of deals with the unavailability of data	554
Final sample for the study	837

Variables and their measurement

Dependent Variables: M&A outcome and performance

Considering the hypotheses of the study, different dependent variables are used. Firstly, to test the impact of CG mechanisms on M&A outcome, a dummy variable is used where 1 implies the deal is successfully completed and 0 otherwise. Secondly, to test the impact on M&A performance in the short-term cumulative abnormal returns (CAR) around the deal announcement used. To measure CARs, in line with the previous studies, event study

methodology has been adopted (Aggarwal et al., 2019; Bhagat et al., 2011; Rani et al., 2013; Teti et al., 2017). First, abnormal returns are estimated by subtracting expected returns from the actual returns around the deal announcement date. Consistent with Aggarwal et al. (2019), the market model has been used to calculate the expected returns, which are estimated over the window period of -200 days to -11 days before the announcement date (day 0). Once the abnormal returns are generated, the cumulative abnormal returns are calculated by summing up the abnormal returns a few days before and after the event date. An event window of 5 days (-5, +5) is considered as it is sufficient to capture all the acquisition value effects, and it is also short enough to minimise the impact of other events affecting the stock prices. Lastly, for long-term performance measure, Tobin's Q ratio calculated one year post the acquisition completion date is considered the primary long-term performance measure, Following Col and Sen (2019) Tobin's Q ratio is calculated as follows:

$$\text{Tobin's Q} = \frac{\text{Market capitalisation} + \text{Total liabilities} - \text{Book value of equity}}{\text{Total Assets}}$$

Independent variables: CG mechanisms: Based on the hypotheses of the study, a total of nine independent variables are used in the analysis. Board size, independence, CEO duality and gender diversity comprise the variables related to board structure (Defrancq et al., 2021). For institutional ownership, adapting from Brickley et al. (1988); De-la-Hoz and Pombo (2016) and Elyasiani and Jia (2010), three categories are formed, viz. pressure-sensitive (banks and insurance companies), pressure-insensitive (mutual funds and public pension funds) and activist pressure-insensitive institutional investors (HFs, SWFs, and PE/VCs). Lastly, for CEO compensation, two types of variables are used. First, performance-linked compensation (Hillier et al., 2020) and second, compensation linked to ESG metrics (Gao et al., 2022). The complete description of the variables and their measurement is given in panel A of Table II.

Table II: Independent and control variables description

Panel A: Independent variables

S.No.	Variable name	Measurement	Abbreviation
1	Board size	Total number of members on the board of the firm	BZ
2	Board independence	Total number of independent directors divided by the board size	BI
3	CEO duality	Binary variable, which takes the value of 1 if both the position of chairmen is also held by the CEO, otherwise 0	CD
4	Gender diversity	Total number of women directors on the board divided by the board size	GD
5	Pressure-sensitive institutional investors	Percentage of shareholdings by banks and insurance companies	PSI
6	Pressure-insensitive institutional investors	Percentage of shareholdings by mutual funds and public pension funds	PISI

7	Activist pressure-insensitive institutional investors	Percentage of shareholdings by HFs/SWFs/PEs	A_PISI
8	CEO performance linked compensation	Remuneration components such as bonus, commission, and equity-based compensation divided by the total amount of remuneration paid to the CEO	CPLC
9	CEO ESG-linked compensation	Dummy variable, 1 if the compensation is linked to any of the ESG indicators and 0 otherwise	CESGC

Panel B: Control variables

S.No.	Variable name	Measurement	Abbreviation
1	Firm leverage	Natural logarithm of (Long term debt+short tem debt)/ (Long term debt+short term debt+common equity)	FL
2	Firm size	Natural logarithm of the market capitalization of the firms	FS
3	Cross border	Dummy variable- 1 if the deal is cross-border, 0 otherwise	CB
4	Deal size	Natural logarithm of the value of the transaction	DZ
5	Insider ownership	Equity ownership held by insiders such as CEO and executive directors	IO
6	State ownership	Equity ownership held by the government	SO
7	Free-cash flow	Cash holdings divided by total assets	FCF

Control variables

The study has also included certain control variables in the analysis. In line with the previous studies, firm leverage, firm size, deal size, free cash flow, cross-border dummy, state and insider ownership along with the year and industry effects have been included in the regression models (Andriosopoulos and Yang, 2015; Cornett et al., 2007; Jiang et al., 2020; Ma, 2019; Nogueira and Castro, 2019). Though these variables are not the focus of the study, it is necessary to control for them as they are likely to influence the dependent variable. Panel B of Table II illustrates the complete definitions of these variables, including their measurement.

Methodology

To test the hypotheses of the study, two regression models are used. Firstly, to investigate the relationship between CG variables and the likelihood of M&A completion Binary Logit model is employed. As the nature of the dependent variable is binary, the following Logit model is estimated:

Prob (Deal Completion) = $\alpha_i + \beta_1 BZ_{it} + \beta_2 BI_{it} + \beta_3 CD_{it} + \beta_4 GD_{it} + \beta_5 PSI_{it} + \beta_6 PISI_{it} + \beta_7 A_PISI_{it} + \beta_8 PLC_{it} + \beta_9 ESGLC_{it} + \beta_{10} Controls_{it}$ + Country effects$_i$ + Year effects$_t$ + εit ……………………………..Eq.1

Second, to estimate the relationship between CG variables and M&A performance, two-step system GMM model is used. System- GMM is employed due to its ability to address the endogeneity concerns caused by simultaneity, unobserved heterogeneity or reverse causality (Arellano and Bond, 1991). Theoretically, researchers argue that corporate governance and firm performance are jointly determined. Therefore, it is highly plausible that both of them could be influenced by each other (Demsetz and Lehn, 1985; Pedersen and Thomsen, 1999; Valenti et al., 2011; Weisbach and Hermalin, 2005). Thus, the probability of bi-directional causality and hence endogeneity caused by simultaneity is possible (Nyeadi et al., 2018). In such scenarios, system-GMM can provide efficient and consistent estimates by controlling for endogeneity issues (Blundell and Bond, 1998) compared to other regression models (Fixed-Effects and Ordinary Lest Square), which often fail to account for such problems, thereby leading to inconsistent and biased estimates (Al Farooque et al., 2020). To address potential endogeneity concerns, the instrumental variable approach in two-step system-GMM is used by employing mean values of the respective explanatory variables in the corresponding industry of the firm as an instrument (Lo et al., 2017; Ma, 2019). The below regression equation is used to test the relationship between CG mechanisms and M&A performance.

M&A Performance = $\alpha_i + \beta_1 BZ_{it} + \beta_2 BI_{it} + \beta_3 CD_{it} + \beta_4 GD_{it} + \beta_5 PSI_{it} + \beta_6 PISI_{it} + \beta_7 A_PISI_{it} + \beta_8 PLC_{it} + \beta_9 ESGLC_{it} + \beta_{10} Controls_{it}$ + Country effects$_i$ + Year effects$_t$ + εit ……………………………..Eq.2

RESULTS

Regression results

CG mechanisms and M&A completion likelihood: Model 1 of Table III presents the results of logistic regression employed to test the relationship between CG mechanisms and the likelihood of deal M&A completion. With regard to board structure variables, the results show that board independence and gender diversity are significantly and positively related to the probability of deal completion. The positive coefficient implies that with more independent directors and female members on board the chances of target firms getting successfully acquired are higher. These results support hypotheses H2A and H4A. Contradicting hypothesis H1A, the results show that more members on the board decrease the chances of successful deal completion. Whereas, CEO duality is not significantly related to M&A deal completion. Concerning the role of target firm ownership in M&A deal completion, Activist pressure-insensitive institutional investors are significantly and positively related to the likelihood of deal completion. This supports hypothesis H7A. Contradicting hypothesis H6A, pressure-insensitive institutional investors are significantly and negatively related to the likelihood of deal completion. On the other hand, pressure-sensitive institutional investors do not significantly influence the likelihood of deal completion. Lastly, the results of model 1 show that both the performance-linked and ESG-linked compensation of the CEO positively contributes to the success of M&A deal completion.

Table III: Regression results

Independent Varibales	Model 1			Model 2		
	Coefficient	Std. Error	p-value	Coefficient	Std. Error	p-value
BZ	0.03	0.13	0.08*	2.22	1.01	0.03**
BI	0.45	1.77	0.04**	9.98	16.74	0.02**
CD	1.05	0.81	0.19	0.98	1.95	0.45
GD	5.98	3.52	0.09*	8.87	37.01	0.05**
PSI	0.03	0.13	0.80	1.37	0.68	0.64
PISI	−0.06	0.03	0.07*	−0.88	0.44	0.15
A_PISI	0.03	0.02	0.02**	0.27	0.14	0.05*
CPLC	0.37	0.16	0.02**	0.48	2.19	0.30
CESGC	8.47	0.89	0.00***	4.63	2.19	0.03**
FL	−0.28	1.60	0.86	−0.76	2.78	0.09*
FS	0.43	0.29	0.14	3.90	1.66	0.02**
DS	−0.30	0.19	0.11	−0.20	1.59	0.40
IO	−0.10	0.11	0.03**	−1.04	0.37	0.00***
SO	−0.03	0.09	0.09*	0.14	0.33	0.68
FCF	−0.50	0.30	0.10	−4.11	2.07	0.05**
CB	1.17	0.63	0.06*	−0.69	1.20	0.57
Constant	2.29	1.51	0.13	−6.39	26.12	0.30
Adjusted R-Square	0.27			0.20		
Country Effects	Yes					
Industry Effects	Yes					
N	837					

Model 1 tests the relationship between CG mechanisms and the likelihood of M&A completion.

Model 2 tests the relationship between CG mechanisms and M&A completion likelihood with a positive market reaction to its announcement.

*,**,*** denotes significance level at 10, 5 and 1 per cent level respectively.

The model 1 results provide preliminary evidence on the impact of CG mechanisms on the probability of deal completion. However, the question of whether these CG mechanisms enhance the approval chances of shareholder value-enhancing deals still remains. Therefore, to investigate the issue further, the below regression equation is developed.

Prob (Deal Completion with +ve CAR) = $\alpha_i + \beta_1 BZ_{it} + \beta_2 BI_{it} + \beta_3 CD_{it} + \beta_4 GD_{it} + \beta_5 PSI_{it} + \beta_6 PISI_{it} + \beta_7 A_PISI_{it} + \beta_8 PLC_{it} + \beta_9 ESGLC_{it} + \beta_{10} Controls_{it}$ + Country effects$_i$ + Year effects$_t$ + εit ……………………………..Eq.3

In this equation, the dependent variable is modified. Now, the dummy variable of deal completion takes the value of 1 when the deal was successfully completed and the market reaction to the deal announcement was positive. This is expected to provide better insights regarding the effectiveness of CG mechanisms in M&A success as it takes into account the reaction of various market participants towards the deal. Model 2 of Table III depicts the results with the modified deal completion dummy variable. Disproving hypothesis H1A, the results indicate with a larger board size, the chances of M&A completion are more even when the market reacts negatively to their announcement. In contrast, board independence and gender diversity are positively associated with M&A deal completion having favourable market reaction thus supporting H2A and H4A. On the other hand, CEO duality is found to be unrelated. Concerning the CG mechanisms related to ownership and compensation structure, only Activist pressure-insensitive institutional investors and ESG-linked CEO compensation hold a significant relationship with the modified dependent variable. Both mechanisms have a significant positive impact implying that with these mechanisms there are increased chances of deal completion which are perceived to be value-enhancing by the market. On the other hand, the rest of the explanatory variables are found to be unrelated.

CG mechanisms and M&A performance

Table IV present the results depicting the impact of CG mechanisms on M&A performance. Model 3 shows the relationship with short-term M&A performance, measured using CAR (-5,+5) around the deal announcement. Whereas Model 4 considers long-term M&A performance, measured using Tobin's Q post 1 year of deal completion. Overall, the results are found to be in line with the hypotheses of the study. Concerning the board structure, board size is significantly and positively related to both the measures of M&A performance thus providing complete support to hypothesis H1B. Hypotheses H2B and H4B are also supported. The results show that board independence and gender diversity positively enhance short and long-term M&A performance. On the other hand, hypothesis H3B is partially supported. CEO duality is found to have a positive impact on CAR whereas a negative impact on Tobin's Q. This is because, during the deal announcement phase, target firms may require strong leadership and a clear line of command to facilitate the transaction. With dual roles communication problems and transaction delay may occur. It might be because of this reason a positive impact is observed in the short-term. Whereas, a negative impact in the long-term may occur due to the changes in leadership positions at the target firm. As acquisitions usually result in a change in the leadership and organisational hierarchy. The newly appointed members may take some time to adjust to the target firm culture. Therefore, a negative relationship is observed with Tobin's Q.

Table IV: Regression results

Independent Variables	Model 3			Model 4		
	Coefficient	Std. Error	p-value	Coefficient	Std. Error	p-value
BZ	0.01	0.00	0.03**	0.14	0.02	0.00***
BI	0.02	0.04	0.06*	0.81	0.25	0.00***
CD	0.04	0.02	0.08*	−0.24	0.14	0.10*
GD	0.14	0.06	0.02**	0.14	0.25	0.08*
PSI	−0.07	0.00	0.07*	−0.01	0.01	0.04**
PISI	0.01	0.00	0.16	0.03	0.00	0.18
A_PISI	0.007	0.00	0.02**	0.01	0.00	0.01***
CPLC	−0.009	0.01	0.13	0.03	0.03	0.23
CESGC	0.02	0.04	0.05**	2.73	0.83	0.00***
FL	−0.002	0.02	0.92	−0.43	0.11	0.00***
FS	−0.006	0.01	0.25	0.28	0.03	0.00***
DS	0.007	0.01	0.22	0.05	0.04	0.16
IO	0.01	0.00	0.06*	0.08	0.02	0.00
SO	0.01	0.00	0.69	−0.12	0.06	0.05*
FCF	−0.008	0.01	0.23	−5.86	0.00	0.00***
CB	−0.04	0.02	0.01**	0.30	0.10	0.01***
Constant	0.26	0.05	0.00***	−0.76	0.29	0.01***
Adjusted R-Square	0.28			0.22		
Country Effects	Yes					
Industry Effects	Yes					
N	837					

Model 3 tests the relationship between CG mechanisms and CARs (-5,+5).

Model 4 tests the relationship between CG mechanisms and Tobin's Q post-one-year deal completion.

*,**,*** denotes significance level at 10, 5 and 1 per cent level respectively.

With regards to the ownership structure, pressure-sensitive institutional investors are negatively associated with both the performance measures thus supporting hypothesis H5B. Similarly, in line with hypothesis H7B, Activist pressure-insensitive institutional investors are also positively related to CAR (-5,+5) and Tobin's Q. Whereas, pressure-insensitive institutional investors are found to be unrelated to the probability of deal approval as well as M&A performance. Lastly, for CG mechanisms related to CEO compensation, only hypothesis H9B is

supported. ESG-linked compensation is positively related to both M&A performance measures whereas performance-linked compensation is found to be unrelated.

DISCUSSION

The results provide a comprehensive understanding of the role of various CG mechanisms in the context of target firm takeovers. At first, the results show these mechanisms do play a significant role in the approval and completion of value-enhancing transactions. The logistic regression results reveal that a larger board size significantly enhances the chances of approval of beneficial deals. The finding is in contrast to the generally accepted view that smaller boards are valuable due to less communication and coordination problems (Eisenberg et al. 1998; Garg, 2007; Ghosh and Indira, 2002). However, as pointed out in the literature review, the decision to get acquired by other firms is extremely complex (Dalton et al., 1999). It may require detailed discussion and deliberation by the board before providing the final approval. Accordingly, in line with the resource dependency view, a positive relationship is observed where a larger board can provide adequate resources and expertise needed for deliberation on the deal (Bauguess et al., 2009; Al Farooque et al., 2020). Similarly, the GMM results also support the above view. The results show that a large board is useful as they create value for the target firm shareholders both in the short and long term. Likewise, for board independence, the results are in line with the proponents of agency theory (Clarkson et al., 2008; Cotter et al., 1997; Defrancq et al., 2020). The results show that more independent directors improve the likelihood of approving better M&A deals and such deals also help create value for the shareholders. As independent directors are not associated with the firm and are free from any conflict of interest, they can offer unbiased opinions and judgment to the decision-making process (Byrd and Hickman, 1992). Further, their independence also empowers them with better monitoring and oversight capabilities over the management. In the same way, for gender diversity, a favourable relationship is obtained with the probability of deal approval as well as M&A performance. This finding again reinforces the resource dependency view, according to which female members can offer benefits associated with heterogeneous a group (Pfeffer, 1991). A homogeneous group of members may have a unidirectional opinion due to which the scope of creativity and innovation is reduced (Redor, 2015). And, traditionally, the board of companies are generally dominated by males. Hence, if the element of diversity is introduced by way of appointing female directors, decision-making can be significantly improved. Accordingly, the results show that with a gender-diverse board, target firm shareholders stand to gain in both terms of superior deals and M&A performance. Lastly, for CEO duality, no significant relationship could be established in logistic regression models. However, a negative impact is found with the short-term performance measure and a positive one with the long-term measure. As explained in the results section, the positive impact could be due to the strong leadership requirement during the initial transaction phase. Whereas, a negative impact could be due to the appointment of new leaders and adjustments to cultural changes in later stages of the transaction.

Concerning the mechanisms related to ownership structure, no significant relationship is observed in logistic regression models for pressure-sensitive investors. However, in GMM results, such investors are inversely related to both performance measures. A negative coefficient implies that such investors do not protect the shareholder's interest during M&A deals. It corroborates the findings of Almazan et al. (2005) and Cornett et al. (2007) implying that such investors can be easily pressurised. To protect their business relationship with the investee firm, they prefer not to challenge management's decisions even if they are detrimental to the shareholders' interest (Gharbi and Othmani, 2022; Tee, 2019). On the other hand, for pressure-insensitive institutional investors, no significant relationship could be established in any of the regression models. An insignificant relationship could be due to the fewer monitoring incentives available to such investors. As their pay is fixed and is not proportional to the performance of the investee firm, they may prefer to adopt a passive approach towards corporate governance issues (Achleitner et al., 2010; Hopkinson and Blois, 2014). Interestingly, activist pressure-insensitive institutional investors are found to be more valuable for target firm shareholders. A positive relationship is observed in both types of regression models. This implies that SWFs, PEs/VCs and HFs are more actively involved in the governance of their investee firm. The finding contradicts the traditional view, where researchers argue that mutual funds and public pension funds monitor firms effectively (Elyasiani and Jia, 2010). In this study, their role is found to be insignificant in the presence of activist investors. The reason for their active role could be fewer regulatory controls, advanced resources and expertise which are usually not available with mutual and pension funds (Achleitner et al., 2010; Carpantier and Vermeulen, 2018; Clifford, 2008; Kedia et al., 2016). Further, fund manager remuneration in the case of activist institutional investors is strongly linked to investee firm performance, which is again not the case with mutual and pension funds (Metrick and Yasuda, 2010). Therefore, due to such reasons, activist institutional investors have more incentives to oversee the governance of investee firms and consequently protect shareholders' interests.

Lastly, for CG mechanisms related to CEO compensation, weak evidence is found for performance-linked compensation. The result from the logistic model shows that CEO performance-linked compensation improves the chance of deal completion. However, when the dependent variable is modified to include market reaction as well. The coefficient turns insignificant. Similarly, GMM models also show insignificant coefficient values for CEO performance-linked compensation. On the contrary, strong evidence is found in CEO ESG-linked compensation in all the regression models. The finding supports the instrumental stakeholder view according to which ESG-aligned firms enjoy the support from various stakeholder groups (Jones, 1995). This is because firms with an orientation towards ESG issues indicate the presence of strong governance and good ethical practices. As a result, such firms are perceived as trustworthy and socially responsible by investors and other relevant stakeholders. Consequently, they do not encounter many challenges and interruptions during the different transaction phases and are smoothly concluded. Moreover, ESG-focused firms are often valued at a premium in the market (Ferrell et al., 2016). With the growing importance of ESG issues, many studies report that firm prioritising ESG factors enjoy several associated benefits such as better reputation, easy access to capital markets, lower idiosyncratic risk and cost

saving through improved efficiency (Martínez-Ferrero and Lozano, 2021). Due to these benefits, these firms are more valued in the market and perform better vis-à-vis other firms. Hence, supporting the above view, a significant positive coefficient is observed in both logistics and GMM results.

CONCLUSION

This study presents empirical evidence on the relationship between various CG mechanisms and M&A transactions. The results reveal the board attributes such as size, independence and gender diversity have a favourable impact on the likelihood of takeover completion and performance. Whereas, CEO duality is found to be related to M&A performance only. On the other hand, the results show that activist institutional investors such as SWFs, HFs & PE/VCs have a consistent and strong influence on both takeover completion success and performance. While traditional categories of institutional investors do not seem to have a strong relationship with only pressure-sensitive institutional investors adversely impacting the M&A performance. Lastly, ESG-linked CEO compensation is also strongly related to both takeover completion likelihood and performance. While no significant impact is found for performance-linked CEO compensation. Overall the study finds that CG mechanisms do influence the target firm successful takeover likelihood and its performance.

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