



UNIVERSITI PUTRA MALAYSIA

**DETERMINANTS, EFFICIENCY AND WEALTH EFFECTS OF
MALAYSIAN CORPORATE MERGERS AND ACQUISITIONS**

SAIFUL HAFIZAH JAAMAN.

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By

SAIFUL HAFIZAH BINTI JAAMAN

**Thesis Submitted to the Graduate School of Management,
Universiti Putra Malaysia, in Fulfillment of the
Requirement for the Degree of Doctor of Philosophy**

July 2007



DEDICATION

A special dedication goes to my husband, Mr. Affendy Adnan, and my parents, Haji Jaaman and Hajjah Sappiah, for their prayers, encouragement and love that help me through this arduous journey.



Abstract of thesis presented to the Senate of Universiti Putra
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Faculty: Graduate School of Management

This research analyses four important issues pertaining to merger and acquisition (M&A) announcements in Malaysia to the bidder and target firms, namely the effects on shareholder's wealth, firm's financial performance pre and post M&A, effects of firm's characteristics on shareholder's wealth and the determinants of shareholder's wealth. Taking into account the two distinguished economic backdrops, this study segregates M&A announcements into two sub-periods; the booming period of 1985 to 1994 and the period surrounding the financial crisis, from 1995 to 2001. Bidder and target firms are classified into the finance and non-finance sectors and the bidder firms are further categorised to bidders announcing to acquire



listed target firms and bidder firms that announce to acquire non-listed targets.

Employing the event study methodology, findings on the wealth effects provide evidence that the target firms do not benefit from M&A activities, regardless of classifications and sub-periods. M&A activities in the period 1985 – 1994 benefit bidder firms from the non-finance sector that acquire listed target firms while M&A activities in the period 1995 – 2001 significantly profit bidder's shareholders in the non-finance sector that acquire non-listed target firms. The regression analyses results are consistent with results reported in the literature that show profitability measures to be the main factors in determining abnormal returns.

Generally, findings of this study show that during the booming economy of 1985 to 1994, M&A is not the growth strategy chosen by firms. The enhanced values of bidders that acquire listed target firms indicate that M&A is mainly done to capture larger market shares or to create monopolies. In Malaysia, M&A is considered more as the strategy to survive as depicted by the high merger announcements in the period of 1995 to 2001 when the economy is in turmoil. Though the forced merger scheme is a necessary measure taken at the time, findings of this study prove that enforced merger scheme destroys value of both bidder and target firms listed in the finance sector.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra
Malaysia sebagai memenuhi keperluan untuk ijazah
Doktor Falsafah

**PENENTU, KECEKAPAN DAN KESAN KEKAYAAN PENGGABUNGAN
DAN PENGAMBILALIHAN KORPORAT DI MALAYSIA**

Oleh

SAIFUL HAFIZAH BINTI JAAMAN

Julai 2007

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Penyelidikan ini mengkaji empat isu penting berkaitan pengumuman penggabungan dan pengambilalihan (P&P) di Malaysia ke atas firma penawar dan sasaran; iaitu kesan kekayaan pemegang saham, prestasi kewangan firma sebelum dan selepas P&P, kesan ciri firma ke atas kekayaan pemegang saham dan penentu kekayaan pemegang saham. Kajian mengambilkira kewujudan dua senario ekonomi ketara sepanjang jangka masa kajian, jangka masa ekonomi bertumbuh antara tahun 1985 – 1994 dan tempoh kemelesetan antara tahun 1995 – 2001. Di samping itu, syarikat penawar dan syarikat sasaran diklasifikasi berdasarkan industri; kewangan dan bukan kewangan dan syarikat penawar seterusnya



dikategorikan kepada syarikat penawar yang mengambilalih syarikat sasaran yang tidak disenarai dan syarikat sasaran yang disenarai di Bursa.

Metodologi kajian peristiwa digunakan untuk mengkaji gelagat harga saham firma. Hasil kajian membuktikan aktiviti P&P dalam jangka masa 1995 – 2001 secara signifikan memberi manfaat kepada pemegang saham firma penawar sektor bukan-kewangan yang mengambilalih firma sasaran yang tidak disenarai dalam pasaran saham. Keputusan analisis regresi adalah konsisten dengan keputusan analisis regresi yang dilaporkan oleh penyelidik terdahulu yang menunjukkan ukuran keberuntungan merupakan faktor utama dalam menentukan corak pulangan abnormal yang bakal diterima oleh pemegang saham kedua-dua firma penawar dan sasaran.

Secara keseluruhan, keputusan kajian menunjukkan bahawa semasa keadaan ekonomi adalah baik, jangka masa 1985 – 1994, P&P bukanlah strategi pertumbuhan yang dipilih oleh firma. P&P dalam sub-tempoh ini meningkatkan nilai syarikat penawar yang mengambilalih syarikat sasaran yang disenarai memberi gambaran P&P dilakukan untuk mendapat peratusan pasaran yang luas atau membentuk firma monopoli. Di Malaysia, P&P merupakan satu strategi kelangsungan firma seperti yang ditunjukkan oleh pengumuman P&P yang tinggi dalam jangka masa 1995 – 2001 semasa kemelesetan ekonomi. Keputusan kajian juga menunjukkan penggabungan paksaan tidak memberi manfaat kepada kedua-dua firma penawar dan sasaran sektor kewangan.

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List of Abbreviations

<u>Abbreviation</u>	<u>Title</u>
M&A	Mergers and Acquisitions
P&P	Penggabungan dan Pengambilalihan
ROC	Registrar of Companies
BNM	Bank Negara Malaysia
FIC	Foreign Investment Committee
SC	Security Commission
NEP	New Economic Policy
MSC	Multimedia Super Corridor
FCF	Free Cash Flow
WTO	World Trade Organisation



CHAPTER 1

MERGERS AND ACQUISITION: DO THEY INCREASE SHAREHOLDERS' WEALTH?

1.1 Introduction

Mergers and acquisitions (M&A) have become part of the daily life of the corporate world and are continuing to grow, leading to a mountain of studies over the last two decades. The interest in this topic has developed from the fact that there has been a dramatic increase in the number of mergers and acquisitions globally since the early 1980s. Over 9,000 M&A were announced in the U.S in 1999 (Gaughan 2002), an increase by 19 percent from the previous year. In Malaysia, over 200 M&A announcements were reported for the same year (Investor's Digest 2000). M&A announcements in Malaysia heightened prior to the financial crisis of 1997 and during the post-crisis recovery period. More than 200 M&A activities were announced in 1995 (Investor's Digest 1996), a jump of 162 percent from 93 announcements made in the previous year.

Mergers and acquisitions may be caused by a complex set of motives but the only way for M&A to be proven beneficial is by measuring the economic outcomes. The theory of finance posits that maximisation of shareholder wealth should be the goal of every business organisation. Corporate directors are required to implement policies consistent with shareholder welfare, synonymous with creating value. Benchmarking against value



creation permits generalisations to be made. Nevertheless, it is not clear whether maximisation of shareholder wealth is the main motivation behind the increased merger and acquisition activities globally and particularly in Malaysia. Occurrences and patterns of M&A may provide useful information on its important implications for the structure and development of a nation's economy. Thus, a lot of research interest has been generated in this field. Unfortunately, even in the developed markets, decades of research have not been able to conclusively establish the impact of M&A activities on most of the issues raised. Myriad of studies in mergers and acquisitions have only raised more questions, not answers.

The economic consequences of mergers and acquisitions have been studied in a large number of studies. The empirical literature on the financial effects of takeover has drawn on two principal sources of statistical evidence; the share market data and accounting-based data. Studies on the share market data have used the event-study methodology to assess economic gains from takeover. These studies examine the abnormal returns to shareholders in the period surrounding the announcement. Event studies yield market based returns to the shareholders.

Despite variations in time period and observation period, findings have been inclined to conclude that the target firm's shareholders enjoy returns that are significant and materially positive, that M&A transaction delivers a premium return to target firm's shareholders. Studies done in the period before 1990 (among others by Langetieg 1978; Dodd 1980; Asquith 1983; Dennis and

McConnell 1986; Lang, Stulz and Walkling 1989) reported significant positive cumulative abnormal returns ranging from 5 to 40 percents for targets, over the period 1990 to 1999 studies on shareholders wealth in M&A (Serveas 1991; Smith and Kim 1994; Loughran and Vijh 1997; Maquieira, Megginson and Nail 1998) recorded significant positive cumulative abnormal returns averaging 26 percent for targets. Similarly, studies on M&A in the period 2000 to 2006 (Eckbo and Thorburn 2000; Tse and Soufani 2001; Cheng and Leung 2004) documented significant positive returns ranging from 5 to 29 percents. As for Malaysian target firms, study by Fauzias (1992) registered significant positive returns of 2 percent while Ariff, Shamsher and Annuar (1998) recorded returns of close to 2 percent for targets. Nevertheless, study by Mitchell (1991) reported significant negative returns of -0.93 percent for targets for the 3 days announcement period.

For the bidder's shareholders, the findings are less conclusive as the evidence for bidder firms are mixed. Studies do not conclusively agree about the abnormal returns earned by bidder's shareholders. In the period before 1990, studies by Dodd (1980) and Scanlón, Trifts and Pettway (1989) reported significant negative returns while studies by Asquith (1983), Dennis and McConnell (1986) and Jarrell and Poulsen (1986) registered significant positive returns. Studies on M&A activities over the period 1990 to 1999 documented positive, negative and zero returns for the bidders. Loderer and Martin (1990) and Loughran and Vijh (1997) documented significant positive returns, Jennings and Mazzeo (1991) and Kaplan and Weisbach (1992) reported significant negative returns while Smith and Kim (1994) registered