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Does Corporate Control Transactions' Type and Focus really Create Value? Evidence from an Emerging Market*Ari Warokka¹, Haim Hilman Abdullah¹, Juan Jose Duran Herrera²¹College of Business (COB) – Universiti Utara Malaysia, Malaysia²Universidad Autónoma de Madrid Ciudad Universitaria, Cantoblanco Madrid, Spain

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Abstract: The failure of corporate-control transactions as strategic-oriented transactions to create significant values for their stockholders has triggered the management to deal with these phenomena by setting the right and best strategies and at the same time, to ensure company's growth in the future. This study tests empirically the implication of corporate-control transaction announcement on companies' abnormal returns. Particularly, this study investigates the effect of the announcement of corporate-control transactions' type (merger and acquisition, sell-off, joint venture, alliance) and focus (transformative or expansionist). It used the event study of 94 corporate-control transactions, which contains of transactions' type and focus of during 1991-2001 periods. By using multivariate regression analysis, the results show that the announcement of corporate-control transactions significant and positively influence the cumulative abnormal return. Meanwhile, the announcement of the corporate-control transactions' type and focus does not significantly influence stockholders' benefit. Generally, the characteristic of the independent and control variables in this study due to their implications to cumulative abnormal return are in-line with previous studies. In addition, this study has proven that the characteristic of investors in Indonesia's stock markets are very different with the ones in many other places like Europe or United States. In other words, this reflects the unstable and inefficiency of Indonesia's stock market as an emerging market.

Key words: *Corporate-control transactions, transaction type, transaction focus.*

1. Introduction

The firm that wants to internationalize its business by accessing capital markets is assumed to maximize its shareholders' wealth. It should choose the best form of acquiring or entering a new market, whether by acquisition, merger, joint venture, or strategic alliance, which are known as corporate control transactions. In other words, it is hoped that the firm is going try to find the best option to maximize its shareholders' value by using the received abnormal return of its firm's stock as the proxy.

This condition, of course, triggers a curiosity about the effect of corporate control transaction to the company's stock return. Research about the announcement's influence of corporate-control transactions' type and focus to the companies' abnormal return, that are listed in ISX (Indonesia Stock Exchange), is one of research efforts in topic "information content" of an event to see market reaction, in term of the reaction of the shareholders, investor, investment analyst, and other stock market activists. This research constituted former investigations in topic corporate-control transaction, which many result of empiric researches showed immeasurable finding how the market response to the transaction. For instance, Haugen and Langtieg (1975) show that there is not any *abnormal return* for companies, which are involved in it, either the acquired companies or the acquiring companies. The same results are shown in research made by Asquith (1983), Bradley and Jarell (1980), and the research findings showed by Frank, Harris, and Titman (1991). Even the research, which is done by Agrawal, Jaffe, and Mandelker (1992), shows that the shareholders of acquiring firms suffer loss by 10% during five years after the acquisition took place.

Other researches show that there is the difference of abnormal return among all parties, which are bidder or acquiring firms and target firms. Morck, Sheleifer, and Vishny (1990) reveal that acquiring firms' performance became worse after they acquired the target firms, which were the emerging firms. Sevaes (1991) find that the merger tactic produces a higher abnormal return for target firm than the acquiring firm by 31.77%. Jensen dan Rubback (1983) in their research about 13 studies of the return during the takeover

announcement, report that target firms get abnormal return by 30% and 20% in successful tender offer and merger, respectively. The same research results are demonstrated by:

- Stulz, Walking, and Song (1990), conclude that target firm get higher return when there are many acquiring firms that propose offering (*multi-bidder-contest*);
- Sudarsanam, Holl dan Salami (1996), find that significantly target firm get positive *cumulative abnormal return*, whether it is done before or after the merger and acquisition announcement.

The latest related research, which is done by Bieshaar, Knight and Wassenaer (2000), shows the same results with the previous investigations in corporate-control transaction. They test four types of transactions in *corporate-control transactions* in term of creating value for the shareholder. They also investigate the types of transaction focus, such as acquisition, merger, sale, and joint venture/alliance; meanwhile the transaction's focuses are market consolidation/business system extension, and portfolio refocus/business diversification. The research result shows an evidence that acquisition give the biggest return contribution by 2.65%, compared to other type of transactions and joint venture gave negative return by -3,10%. Bieshaar et al. (2000) also finds that the market prefers deals that are intended to expansive programs, such as market consolidation, new region expansion, or adding new distribution for existed product and service. This result can be compared to deals that are characterized as transformative -is defined as company efforts to enter into new line business or switch some business units into other promised business portfolio- that market does not like it. Ernst and Halevy (2000) find a different result in their research to 2,100 companies that announced alliance. The result reveals that market considers positively the alliance transaction announcement by giving an average increasing by 73% to 53% that media industry get when they announce merger and acquisition. In addition, an increasing by 64% in alliance announcement to 33% that high-technology industry get when they announce merger and acquisition. This research concludes that investor and finance analyst prefer much more alliance transaction than other types, because they think that alliance has smaller risk and more ability to establish a stronger business in turbulent environment, which it is done by integrating all parties. Market also considers that alliance is easier to do.

Much research has been done on how the two strategic approaches; strategic alliances, divestitures, mergers, and acquisitions individually affect share prices and thereby affect shareholder value surrounding the announcement of these formations. One area, which is not very much explored, is the analysis of corporate-control transaction types and focus, between strategic alliances, divestitures, mergers, and acquisitions, with regards to how they differ in their impact on the shareholder value creation due to the announcements of these formations.

The purpose of this study is to analyze the concepts of corporate-control transaction type and focus, such as strategic alliances, divestiture, mergers, and acquisitions and their effects on shareholder value surrounding the announcements. The study will be looking at the effects on shareholder value at the time of the firm's announcements of forming strategic alliances, divestiture or mergers and acquisitions. The research is only going to look at how the announcements of these strategic alliances, divestiture, mergers, and acquisitions affect share prices and meanwhile, other analyses on other factors that can have an impact on share prices, will not be included. This study, to our knowledge, will contribute in giving more comprehensively empirical study on corporate control transactions that it has been done before in Indonesia yet. It will give a completed picture how a semi-efficient capital market reacts to corporate control transactions.

2. Literature Review

The research on corporate-control transactions has attracted much academic interest for a long period time. For example, merger and acquisition have been examined by many researchers since the first merger wave in the beginning of the 20th century, particularly in the field of finance, with intention to find whether acquisitions provide firms with performance benefits. The ominous conclusion that can be drawn from this early acquisition research is that mergers and acquisition do not provide acquiring firms with real benefits (see Hogarty, 1970 and Jarrell, Brickley and Netter, 1988 for reviews). Collectively, these studies found that shareholder value of acquiring firms generally deteriorate following merger announcements and in subsequent years (e.g, Agrawal et al., 1992). Even according to most of the research that McKinsey and others

have undertaken into the market's reaction to announcements of major deals (Bieshaar et al., 2000), half or more of the big mergers, acquisitions, and alliance we read about in the newspapers fail to create significant shareholder value. For shareholder, the sad conclusion is that an average corporate-control transaction puts the market capitalization of their company at risk and delivers little or no value in return.

The definition of Corporate-Control Transactions: Corporate control is frequently used to describe many phenomena ranging from the general forces that influence the use of corporate resources (such as legal and regulatory systems and competition in product and input markets) to the control of a majority of seats on a corporation's board of directors. Jensen and Rubback (1983) define corporate control transactions as transactions that give the rights to determine the management of corporate resources – that is, the rights to hire, fire, and set the compensation of top-level managers. Corporate-control transactions can occur through some types, such as merger, tender offer, or proxy contest, alliance or joint-venture, divestiture, and sometimes some elements of all those transactions are involved. In mergers or tender offers, the bidding firm offers to buy the common stock of the target at a price in excess of the target's previous market value. Tender offers are offers to buy shares made directly to target shareholders who decide individually whether to tender their shares for sale to the bidding firm.

Sell-off means the sale of a subsidiary, division, or product line by one company to another. Sell-off is a simple form of divestiture, a process of selling or divesting an asset, which is not performing well, which is not vital to the company's core business, or which, is worth more to a potential buyer or as a separate entity than as part of the company. For a selling company, it is a contraction decision, while on the other side, for the buying company, it becomes a tool of expansion (Linn and Rozeff, 1984). Meanwhile, other emerging forms of divestiture are MBO (management buyout) and LBO (leveraged buyout). MBO happens when the managers and/or executives of a company purchase controlling interest in a company from existing shareholders. In most cases, the management will buy out all the outstanding shareholders and then take the company private because it feels it has the expertise to grow the business better if it controls the ownership.

A joint venture is a contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking. All parties agree to share in the profits and losses of the enterprise. This is a good way for companies to partner without having to merge. Joint ventures are typically taxed as a partnership. Meanwhile, strategic alliance is defined as an agreement between two or more individuals or entities stating that the involved parties will act in a certain way in order to achieve a common goal. Strategic alliances usually make sense when the parties involved have complementary strengths. A strategic alliance is less involved than a joint venture where two companies typically pool resources in creating a separate entity.

Motives for corporate-control transactions: Why do firms engage in corporate-control transactions? There are many reasons, and it depends on the type of corporate-control transactions. For example, motives for acquisitions, at least there are five motives that push company to do it: (1) acquire undervalued firms, (2) diversify to reduce risk, (3) create operating or financial synergy, (4) take over poorly managed firms and change management, and (5) cater to managerial self-interest. Motives for merger show a quite similarity to motives for acquisition. Trautwein (1990) offers several theories of merger motives including efficiency, monopoly, raider valuation, empire building, process, and disturbance theory.

Meanwhile, firms have a wide variety of reasons for divestiture. For example, a common reason is to increase a firm's focus. Comment and Jarrell (1995) document a trend toward corporate focus. John and Ofek (1995) find that asset sales lead to an improvement in the subsequent operating performance of the seller's remaining assets. They find that the improvement in performance occurs primarily in firms that increase their focus. Borde, Madura, and Akhigbe (1999) find that evaluation effects are more favorable when foreign divestiture are for strategic reorganization purpose. Another reason is to eliminate a low-performing division or business. By divesting the business, especially one in an unrelated area resulting from a previous conglomerate merger, a company may be able to recreate the value destroyed at the time of the earlier acquisition. Allen, Lummer, McConnell, and Reed (1995) examine the correction-of-a-mistake hypothesis with a sample of 94 spin-offs that occurred during the 1962-1991 period. Their results suggest that managers who undertake poor acquisitions can redeem themselves, at least partially, by subsequently divesting the unwise acquisition.

Firms undertake strategic alliances for many reasons: to enhance their productive capacities, to reduce uncertainties in their internal structures and external environments, to acquire competitive advantages that enables them to increase profits, or to gain future business opportunities that will allow them to command higher market values for their outputs (Webster, 1999). Partners choose a specific alliances form not only to achieve greater control, but also for more operational flexibility and realization of market potential. Their expectation is that flexibility will result from reaching out for new skills, knowledge, and markets through shared investment risks. The strategic motives for organizations to engage in alliance formation vary according to firm-specific characteristics and the multiple environment factors.

The effect of corporate-control transaction announcement on stock return: The response of stock returns to announcements of corporate-control transactions is proven by many researches. In most corporate-control transactions, market responds the announcement by giving a change in stock price for the companies that are involved in it, as the result of the announcement. The shareholder wealth itself is measured by abnormal return (the difference between the actual and the 'normal' expected price performance) and it expresses the shareholders' evaluation of the underlying transaction and its impact on the company's future performance. In a semi-efficient capital market (Fama, 1970), this announcement effect reflects the long-term consequences of the corporate-control transactions' strategy and gives an unbiased picture of the average stock market's valuation (Linn and Rozeff, 1984).

Prior empirical findings reveal that there are three groups of merger and acquisition announcements' effects on shareholder wealth, i.e. positive, negative, and neutral. Jensen and Ruback (1983), Datta, Pinches, and Narayanan (1992), and Bruner (2001) report that M&A transaction delivers a premium return to target firm shareholders. Studies that analyze long-term returns to shareholders of acquiring firms tend to find a significant negative excess returns to acquirers (Gregory and McCornston, 2002; Faccio, Larry Lang, and Young, 2002). The neutral effects are found in the research of Campa and Hernando (2002), which shows abnormal returns to buyer shareholder from M&A activity are essentially zero, or in other words, buyers are essentially in breakeven (i.e. that acquisitions tend to offer zero net present values, or equivalently, that investors earn their required return).

Meanwhile, in analyzing the announcement effect of alliance, most researches find evidence those alliance announcements are, on average, accompanied by a positive stock market response. Interestingly, the magnitude of this response varies with the capabilities and experience of the partner (McConnell and Lantel, 1985; Anand and Khanna, 2000; Kale, Dyer and Singh, 2002), as well as with environmental and industry characteristics (Madhavan and Presscot, 1995; Merchant and Schendel, 2000). These findings have usually been interpreted as supportive of the competitiveness-enhancing view of alliances, whereby an alliance raises a firm's value by making it more competitive such that it can out-compete its rivals in the market. However, positive abnormal returns to alliance partners are equally compatible with the competition-attention view of alliances.

In case of divestiture announcement, Markides (1992a) found a total increase of 1.73% for the overall sample and cumulative above average returns of 4.23% for total over diversified firms, suggesting that they benefit the most from divestiture. In contrast, Wright and Ferris (1997) found a slightly negative reaction of stock markets to firms' divestiture announcement. The far greater of event studies in finance research generated equally ambiguous results. Whereas some studies found significant increase (+1.12% to +3.9%) (e.g. Gertner, Powers, and Scharfstein, 2002; Klein, 1986; Krishnaswami, Spindt, and Subramaniam, 1999; Lang, Poulsen, and Stulz, 1995; Miles and Rosenfeld, 1983; Vijh, 1994) during the announcement window, other studies have found that voluntary divestiture may have an insignificant or even negative impact on the divesting firms' stock prices (-4% to 0%) (e. g. Masulis and Korwar, 1986; Schill and Zhou, 2001). In general, we can say that the announcement of corporate-control transactions has effect on companies' stock return and shareholders wealth that are involved in it.

Hypotheses Development: This study will test three hypotheses. Firstly, it will test the effect of corporate-control-transactions on shareholder's stock return. The previous researches give evidences that abnormal return exist as the response of market to the announcement and all researches have common reasons that

underlie why market significantly responds it. Clarke, Wilson, Daines, and Nadauld. (1990) summarizes these reasons as the existence of reasonable motives, in which the market expects corporate-control transactions could: (1) give operating economies, (2) create economies of scale, (3) eliminate inefficient management, and (4) create financial synergy. Based on these reasons, we can formulate a hypothesis as follow:

H₁: The announcement of corporate-control transactions has a significant effect on companies' stock abnormal returns that are involved in it.

Secondly, Bieshaar et al. (2000) reports that market reacts differently to various structural forms of a deal might take: a merger, a sale, or a joint venture or alliance. In their research, merger and asset sales define the baseline: the market shows no particular reaction to them one way or the other. The most likely explanation is that in an acquisition it is always clear which company controls the post-merger integration process. It is therefore much more likely that the full synergies of a deal will be captured in an acquisition than in a merger, in which a lengthy power struggle often ensues between the management teams of the companies involved. Lee and Wyatt (1990) report significantly negative stock price reactions associated with joint venture announcements thus leading to a decrease in the firms' shareholder value. Most studies have found that increase in shareholder value is obtained for about half the number of firms studied, but value is destroyed for the remaining firms. Chan, Kensinger, Keown, and Martin (1997) investigated share price reactions to the formation of 345 strategic alliances during the period from 1983 to 1992. Their finding shows that establishing strategic alliances creates a statistically significant average abnormal return of 0.64% for the stockholders of the partnering companies. Those research findings contain one logical conclusion that there is a difference of effect on corporate-control transaction type; therefore, we can formulate the second hypothesis as follow:

H₂: The type of corporate-control transactions has a significant effect on companies' stock abnormal returns that are involved in it.

We divide the corporate-control transaction types into two groups: merger and acquisition in one groups, and sell-off and joint venture/alliance into other group.

Thirdly, Bieshaar et al. (2000) also document that the focus or intention of corporate-control transaction has a significant effect. They found that the market apparently prefers deals that are part of an "expansionist" program, in which a company seeks to boost its market share by consolidating, by moving into new geographic regions, or by adding new distribution channels for existing products and service. The market seem to be less tolerant of "transformative" deals, those that seeks to move companies into new lines of business or to remove a chunk of an otherwise healthy business portfolio. The market's tendency to favor expansionist over transformative is based on some reasons. The potential synergies from expansionist transaction are usually much greater because they combine similar assets. Even when a transformative deal does promise synergies, they tend to be less predictable than those in expansionist deals are and not as easily verified by investors at the same time of the announcement (Bieshaar et al., 2000). John and Ofek (1995) find empirical evidence that companies that sell assets in order to concentrate on core business eliminate negative synergy (e.g. diseconomies of decision management and decision control inherent in diverse lines of business) between the divested assets and the remaining assets, which leads to better performance for the seller. Based on these reasons, we can formulate a hypothesis as follow:

H₃: The focus of corporate-control transactions has a significant effect on companies' stock abnormal returns that are involved in it.

We divide the corporate-control transaction focus into two groups: market consolidation/ geographic expansion and business system extension as the focus of expansionist, and portfolio refocus and business diversification into the focus of transformative.

3. Methodology

The empirical methodology used in this research is the event study approach, which has been used extensively in finance, accounting, regulatory economics, and management to assess the value implications of the release of firm-specific information. The event study methodology was first introduced in 1969 by Fama, Fisher, Jensen, and Roll, who started a methodology revolution in economic and finance (Binder, 1998). The approach is based on the assumption that in an informative efficient market, any new information will be shown in share prices. Hence, the value relevance of any secret information and its impact on a firm can be assessed by examining the price changes surrounding the release of the information (Das, Sen, and Sengupta, 1998).

In this study, the 11-days event windows have been chosen: 5 trading days before the announcement, 5 days after it, and the day of the announcement itself. The reason for choosing this short event window is to increase the reliability in the results derived. This would imply that no confounding effects have influenced the event period and that the significant effects have been captured. The time horizon of this research is 1991 - 2001 and it is mainly because before 1991 the number corporate-control transactions were so limited. The research chooses to 10-years observation due to the fact that the availability of data since 1991 is practically easy. In addition, the 10-years observation is hoped to be able to give enough information of corporate-control transactions at the time of emerging Indonesia Capital Market. The final sample of this study is 94 transactions.

The study carries out a multivariate regression to assess the correlations between the excess returns created by each corporate-control transactions and various characteristics of that deal. In this study, the dependent variable is defined as excess returns relative to the local stock market (abnormal returns), during the 11 trading days surrounding the announcement of the deal, and the model of multivariate regression is:

$$CAR_j = \beta_1 D_1 + \beta_2 D_2 + \beta_3 T_{size} + \beta_4 T_{volume} + \beta_5 D_3 + e_j$$

It is a multivariate regression model with zero intercept. The motive is to see the net effect of five independent variables on abnormal return, where:

CAR _j	the cumulative abnormal return around the announcement date for firm j
D ₁	dummy variable indicating type of corporate-control transactions, taking a value of 1 if the type of transactions is merger and acquisitions, otherwise a value of 0
D ₂	dummy variable indicating focus of corporate-control transactions, taking a value of 1 if the focus of transactions is expansionist, otherwise a value of 0
T _{size}	transaction size
T _{volume}	transaction volume
D ₃	dummy variable indicating industry type of companies that announced corporate-control transactions, taking a value of 1 if industry type is financial service, otherwise a value of 0

4. Results and Discussion

In order to test whether the information content of the corporate-control transactions announcement will be responded by investor, it needs to do a companies' abnormal returns test in the period around the announcement. This test is done by using t-test two-tail comparing the t-statistics to its t-table. How does the stock market react towards corporate-control transaction announcements? Table 1 below presents the results derived from the total sample of observations for companies' abnormal returns including 94 observations.

Table 1: Average Abnormal Returns (AAR) in the event window (-5; +5)

t	AAR _t	T-statistics
t-5	0.002439	0.685083
t-4	-0.002752	0.6751386
t-3	0.02127	1.5987188
t-2	0.011421	1.6300261
t-1	0.008377***	1.9320489
0	0.014501*	2.3885894
t+1	-0.006884***	-1.658519
t+2	-0.014302***	-1.680007
t+3	0.005269	1.6427854
t+4	0.006574	1.187483
t+5	0.003127	0.4377788

Note: AAR_t= average abnormal returns at - t, * p < 2%, ** p < 5%, *** p < 10%

The results in Table 1 are supportive of hypothesis H₁. The market reacts to the announcement of corporate-control transactions by giving statistically significant average abnormal return since days -1 until day +2. This result accepts hypothesis that it states that announcement of corporate-control transactions has significant effect on companies' stock abnormal returns that are engaged in it. In general, the results in Table 1 are consistent with the information content hypothesis, which predicts the existence of abnormal return as market's reaction on announcement of corporate control transaction. In addition, it supports previous studies, such as Clarke et al. (1990) that investors positively respond to the announcement with expectation to gain financial strategy, eliminate inefficient management, or create economies of scale.

On the other side, a positive statistically significant abnormal return at day -1 signifies an information leakage in market's reaction to corporate-control announcement. These symptoms of inefficiency market are shown by statistically significant abnormal returns until day +2. We usually find this condition in a stock market where there are naïve investors who are unable to distinguish between information.

To test first and second hypothesis, the regression model uses two types. There are zero-intercept and with-intercept model. The motive of using zero-intercept regression model is to see the net effect of independent variables on companies' stock abnormal returns and compare it with-intercept regression model (Table 2).

Table 2: The Effect of Transaction's Type and Focus

The Effect of Transaction's Type and Focus Regression Model with Intercept (Constant)			The Effect of Transaction's Type and Focus Regression Model with Zero-Intercept	
CAR _i = β ₀ + β ₁ D ₁ + β ₂ D ₂ + β ₃ T _{size} + β ₄ T _{volume} + β ₅ D ₃ + e _i			CAR _i = β ₁ D ₁ + β ₂ D ₂ + β ₃ T _{size} + β ₄ T _{volume} + β ₅ D ₃ + e _i	
Variable	Coefficient	T-Statistic	Coefficient	T-Statistic
Constant	0.05730	1.807		
Type (M & A)	0.004838	0.170	0.01069	0.373
(JV / Alliance)	0.003721	0.890	0.00955	1.051
Focus (Expansive)	-0.02924	-0.952	0.00522	0.214
(Transformative)	-0.01556	-1.143	0.00319	0.765
Tsize	-0.004240	-1.016	-0.004172	-0.987
Tvolume	0.385	2.543*	0.493	3.506*
Industry (Financial)	-0.009264	-0.362	0.009649	0.408
(Non Financial)	-0.007956	-0.218	0.008134	0.379
F-Value	1.773		4.885	
R-square	0.092		0.216	

* p < 2%, ** p < 5%, *** p < 10%

One striking discovery in this study is insignificant effect of corporate-control's type and focus. In other words, the market's reaction is not statistically significant influenced by various structural forms of a deal might take: an acquisition, a merger, a sale, or a joint venture or alliance. Mergers and acquisition are still the most preferred option to gain abnormal return for investor in stock market in responding corporate-control announcement. It boosts the announcement impact of a deal on companies' stock that engaged in it by 0.4 percent in zero intercept model and 0.5 percent in intercept model. This findings support prior empirical studies, such as Bieshaar et al. (2000), Lee and Wyatt (1990), and Chan et al. (1997), which report the influence of certain forms of corporate control transactions.

The most likely explanation is that in a merger and acquisition it is always clear which company controls the post-merger and acquisition process. It is therefore much more likely that the full synergies of a deal will be captured in a merger and acquisition than in other deal types, in which a lengthy power struggle often ensues between the management teams of the companies involved. As for joint ventures and alliances, their announcement does not affect companies' stock abnormal returns. Perhaps the investment community views these deals as incomplete asset combinations that create few immediate synergies but can limit a company's strategic options and sap the attention of managers. There are, of course, a number of outstanding exceptions to the rule, but it does seem to be the case that, all else being equal, "partial" deals are more likely to diminish a company's value than others are (Ernst and Halevy, 2000).

This condition is a little bit different from the 2004 Price Waterhouse Coopers study of 201 senior finance executives that finds nearly two thirds of respondents were more willingly to strike alliance that they were 3 years earlier. Another study of Fortune 500 companies shows that the top 25 successfully embrace alliance strategies consistently performed better than those that do not. Nevertheless, as it has been mentioned above, the Indonesian stock market characteristics play important impact on the capability of investment community in responding the information. Especially, Indonesian investors are able to be categorized as naïve investors who are unable to respond, analyze, and use the information optimally and wisely. Other interesting results in this study are transaction focus. The study finds that if a deal aimed to consolidate a market by combining two companies in the same industry or to expand a company's geographic bounds ("market consolidation" or "geographic expansion," respectively), all else being equal it earned a 0.48% of zero intercept model and 0.52% of intercept model in the 11 trading days surrounding its announcement. In other words, expansionist takes a favor of market. This finding is in line with the work of Bieshaar et al. (2000) and John and Ofek (1995).

The market's tendency to favor expansionist over transformative deals makes intuitive sense. The potential synergies from expansionist transactions are usually much greater because they combine similar assets. Even when a transformative deal does promise synergies, they tend to be less predictable than those in expansionist deals are and not as easily verified by investors at the time of announcement. For managers, the lesson is clear: not to shy away from transformative transactions but to ensure that they get closer scrutiny – and pass a higher hurdle – than expansionist one, and that they actually create tangible value. In this study, the result shows that the wealth creation for corporate-control transactions is directly and significantly related to volume of company shares that is traded in 11 trading days surrounding the announcement. It indicates that the number of shares traded in event window increases a 0.435 percent stock market premium. By having more shares around the announcement date, investors believe that they will get more wealth creations. Verrecchia (2001) find that the disclosure of information affects investors as reflected in stock price and trading volume. This prior research shows that the change in stock price depends on the average pre-announcement and event-period information.

Meanwhile, in the industry sector, market responds negatively to companies that are in financial services sector, such as banking, investment, and trading. The lack of investor's confidence on Indonesia banking sector probably is the cause of this phenomena. On the other side, according to Bieshaar et al (2000), the opportunities to create synergies and transfer skills through corporate-control transactions are plentiful in the banking and financial service, since both are still growing, and banking is also quite fragmented. In addition, in the fast-changing industry, corporate-control transactions are viewed as the fastest and least cost-intensive to acquire the resources necessary for keeping pace with competitors (Mowery et al., 1996).

Other industries, such as chemical or petroleum or non-financial services, by contrast, are relatively stagnant and consolidated.

5. Conclusion

When analyzing corporate-control transactions and their impact on share prices, it can be concluded that shareholder value increases at the time of the announcements of these formations. Corporate-control transactions, which are studied in the event study of this thesis, averagely earned positive returns in 11 trading days of event period. Although, it was a small positive increase, the market reacted positively to the news of these deals. The results of shareholder value creation at the announcements of corporate-control transactions coincide with earlier research of these deals, which suggest that corporate-control transactions create value. In general, shareholders have increased their wealth by 0.1692 percent of positive abnormal return when they reacted on corporate-control announcement. It can be concluded that investors consider positively on the news and view it contains information. Thus, they respond to the announcement based on it.

The results for the total sample of observations on mergers, acquisitions, divestiture and joint ventures or alliances, indicate that companies engaged in it experience positive shareholder value, while statistically are not significant. In case of type of deals, mergers and acquisitions are more preferred for investment community than other deals, indicates that mergers and acquisition are more believed to create wealth for shareholders. The other deals, divestitures and alliances, are not strong enough to convince investor as strategic decisions that are also able to give shareholder wealth.

In this study, the market considers mergers and acquisitions are able to facilitate the business consolidation and expansion. The market believes that mergers and acquisitions are much faster in applying corporate strategic decisions than other deals. On the other side, the market views divestitures and alliances are much more complex and take much effort to realize its strategic decisions. In case of focus of deals, the results show that market apparently prefers deals that are part of an "expansionist" program, in which a company seeks to boost its market share by consolidating, by moving into new geographic regions, or by adding new distribution channels for existing products and services. The market seems to be less tolerant of 'transformative' deals, those that seek to move companies into new lines of business or to remove a chunk of an otherwise healthy business portfolio.

The market tends to favor expansionist over transformative because the potential synergies from expansionist transactions are usually much greater. They combine similar assets. On the other side, even when a transformative deal promises synergies, they tend to be less predictable than those in expansionist deals and are not as easily verified by investors at the time of the announcement.

This study has contributed to give a better and comprehensive empirical finding on corporate control transactions that is different from prior studies, which are much done in western countries. It gives the investors' behavior of semi-efficient capital market and provides strategic implication to leverage it. However, this study has limited generalization due to its characteristics and needs to be extended in future studies, especially by comparing different periods, such as pre and post Asian financial crisis, and replicate it in other Southeast Asian developing countries, which have similar type and capital market environment.

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