

DETERMINANTS OF CROSS-BORDER MERGERS AND ACQUISITIONS (CBMAs) PERFORMANCE IN FIVE EAST ASIAN COUNTRIES

Saw-Imm Song, Rashidah Abdul Rahman, Ei-Yet Chu, Cheok-Choo Kueh

Abstract— This study aims to investigate the determinants that caused the variations in the post-CBMA performance of the target firms in the five East Asian countries, namely Malaysia, Thailand, Indonesia, the Philippines and South Korea. Using a sample from 1998 to 2004, the ownership and target firms' characteristics are examined. A four-step hierarchical analysis was used with EFCFS (Excess free cash flow per share) as a dependent variable for the post-CBMA performance and independent variables including characteristics of targets (pre-CBMA) and ownership characteristics of the acquired (post-CBMA). The results show that the average EFCFS improved after CBMAs. The target characteristics such as pre-CBMA performance, the size of the targets, and the business relatedness between targets and acquirers have a significant effect on EFCFS. The positive effect of foreign majority control on post-CBMA performance nevertheless is contingent on the target characteristics..

Keywords — Cross-border mergers and acquisitions, East Asian countries, Determinants, Excess free cash flow, target characteristics, ownership

I. INTRODUCTION

Recent Mergers and Acquisitions (M&As) trend indicates that cross-border M&As (CBMAs) are getting more popular as a form of investment.[1] More than 40 percent of the global foreign direct investments (FDI) flowed into the emerging market of which 85 percent were in the form of CBMAs.[2]. This is supported by Ref. [3] whereby CBMAs accounted for about 47 percent of the world wide M&A transactions in 2007, and [4] stated that the total value of CBMAs in developing countries was \$19.5 billion in 1999, up from \$5.3 billion in 1997. CBMAs in the emerging markets are gradually increasing, accounting for about a quarter of the global CBMAs in 2006. East Asia has been the fastest growing target region, growing at an annual average rate of 10 per cent. Fuelled by the 1997-98 Asian financial crisis, CBMA sales have increased dramatically in the developing economies, particularly in the five Asian economies most affected by the financial crisis, namely Malaysia, Thailand, Indonesia, the Philippines, and South Korea (hereafter Korea).[5].

Prior to the Asian financial crisis, foreign investors were explicitly prohibited from gaining a controlling stake in local firms, e.g in Korea and Malaysia. The financial crisis has triggered important policy changes on the expectation that CBMAs would speed up corporate and financial restructuring and facilitate faster economic recovery. Nevertheless, concerns have been raised on the risk of shifting ownership of important enterprises from domestic to foreign hands and whether the openness to trade and foreign investment makes developing countries more vulnerable to exploitation by foreign investors.[6].

Despite the popularity of M&As for strategic growth in the corporate world and the interests of the policy makers in CBMAs, empirical studies in CBMAs are still sparse especially in the East Asian economies. In addition, previous studies have provided mixed results on the effect of CBMAs.[7, 8]. The effects of CBMAs and determinants that cause the variations to the post-CBMA performance in these countries after the crisis would be of value to many parties concerned. Thus, this study aims to investigate the effects of CBMAs and the possible causes of the variations in the post-CBMA performance of the target firms in the five East Asian countries, namely Malaysia, Thailand, Indonesia, the Philippines and South Korea. For this purpose, the ownership and target firms' characteristics (target firm performance, size and business relatedness) are examined. We hypothesize that firm-specific information such as financial characteristics are related to the potential gains that bidders would expect to enjoy through the business combination. This group of variables provides bidders with information in the acquisition screening process, and thus their motives for the acquisitions can be derived. [9, 10]. In terms of the ownership characteristics of the firms, we hypothesize that it would have an impact on bidding firms' performance; large foreign shareholdings would exacerbate or mitigate agency conflicts.[11, 12].

This paper is presented as follows. The following section discusses a review of the literature and hypotheses development. This is followed by method and analysis of the results. Finally, this paper discusses and concludes the findings and provides suggestions for future research.

II. RELATED LITERATURE AND HYPOTHESES DEVELOPMENT

A. Target Characteristics

There are many factors contributed to the post-acquisition performance of the acquired firms. Generally, the characteristics of a target firm reflect the motivation of the bidding firms. For instance, if the targets performed poorly, managerial-disciplinary take-over would be a possible outcome. [13, 14]. The crisis in the Asian countries provides this opportunity as many of the corporations in these countries were in distressed condition and this corresponded to the "fire sale" phenomena as highlighted by [15].

On the other hand, bidders may acquire targets with growth potential and good track record in terms of earning prior to the crisis to gain expertise as well as new markets in the countries concerned. The target firms would also gain immediate liquidity, asset reallocation, economies of scale, technology advancement and prevent losses. Thus,