



**UNIVERSITI PUTRA MALAYSIA**

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

**SAIFUL HAFIZAH JAAMAN.**

**GSM 2007 5**

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

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  
Malaysia in fulfilment of the requirement for the degree of Doctor  
of Philosophy

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**Chair: Professor Dr. Shamsheer Mohd Ramadili Mohd, PhD**

**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**

**Pengerusi:           Profesor Dr. Shamsheer Mohd Ramadili Mohd, PhD**

**Fakulti:             Sekolah Pengajian Siswazah Pengurusan**

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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I appreciate the assistance of GSM staff members and the library staff at UKM, UPM, Bursa Malaysia and National Library. And last but not least, I would like to extend my appreciation to UKM for providing me the opportunity to pursue this PhD program and to fellows in Actuarial Science Program and Centre of Mathematical Sciences of U.K.M.



I certify that an Examination Committee met on 16<sup>th</sup> May 2007 to conduct the final examination of Saiful Hafizah Binti Jaaman on her Doctor of Philosophy thesis entitled "Determinants, Efficiency and Wealth Effects of Malaysian Corporate Mergers and Acquisitions" in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulations 1981. The Committee recommends that the candidate be awarded the relevant degree. Members of the Examination Committee are as follows:

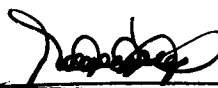
**ARFAH SALLEH, PhD**  
Associate Professor  
Graduate School of Management  
Universiti Putra Malaysia  
(Chairman)

**G. SIVALINGAM, PhD**  
Professor  
Monash University  
(External Examiner)

**L.V.L.N SARMA, PhD**  
Professor  
Faculty of Management  
Multimedia University  
(Internal Examiner)

**NORHANA SALAMUDDIN, PhD**  
Associate Professor  
Faculty of Business Management  
Universiti Teknologi Mara  
(Internal Examiner)

**SHAMSHER MOHD. RAMADILI, PhD**  
Professor  
Faculty of Economics and Management  
University Putra Malaysia  
(Representative of Supervisory Committee/Observer)



---

**RADUAN CHE ROSE, PhD**  
Associate Professor/Deputy Dean  
Graduate School of Management  
Universiti Putra Malaysia

Date: 3/8 / 2007

This thesis submitted to the Senate of Universiti Putra Malaysia has been accepted as fulfillment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee are as follows:

**SHAMSER MOHD RAMADILI, PhD**  
Professor  
Faculty of Economics and Management  
University Putra Malaysia  
(Chairman)

**ANNUAR MD. NASSIR, PhD**  
Professor  
Faculty of Economics and Management  
University Putra Malaysia  
(Member)

**TAUFIQ HASSAN SHAH CHOWDURY, PhD**  
Faculty of Economics and Management  
University Putra Malaysia  
(Member)



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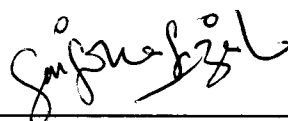
**ARFAH SALLEH, PhD**  
Associate Professor/Dean  
Graduate School of Management  
Universiti Putra Malaysia

Date: 9 / 8 / 2007

## DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at UPM or any other institutions.

Signed



---

Saiful Hafizah Bt. Jaaman

Date: 16/08/2007

## TABLE OF CONTENTS

|                       | <b>Page</b>  |    |
|-----------------------|--|----|
| DEDICATION            | ii   |    |
| ABSTRACT              | iii  |    |
| ABSTRAK               | v  |    |
| ACKNOWLEDGEMENTS      | vii  |    |
| APPROVAL              | ix   |    |
| DECLARATION           | xi   |    |
| LIST OF TABLES        | xv   |    |
| LIST OF FIGURES       | xx   |    |
| LIST OF ABBREVIATIONS | xxi  |    |
| <br>                  |  |    |
| <b>CHAPTER</b>        |  |    |
| <b>1</b>              | <b>MERGERS AND ACQUISITION: DO THEY INCREASE SHAREHOLDERS' WEALTH?</b> |    |
| 1.1                   | Introduction   | 1  |
| 1.2                   | Objectives of This Research  | 8  |
| 1.3                   | Research Issues  | 9  |
| 1.4                   | Significance of this Study   | 11 |
| 1.4                   | Structure of the Thesis  | 14 |
| <br>                  |  |    |
| <b>2</b>              | <b>MERGERS AND ACQUISITIONS IN MALAYSIA</b>                            |    |
| 2.0                   | Introduction   | 15 |
| 2.1                   | The Need for Regulations in Mergers and Acquisitions                   | 15 |
| 2.2                   | Regulations of Mergers & Acquisitions                                  | 18 |
| 2.3                   | Process of Mergers & Acquisitions                                      | 21 |
| 2.4                   | Merger and Acquisition Activity  | 25 |
| 2.5                   | M&A and Economic Performance   | 30 |
| 2.6                   | Chapter Summary  | 41 |
| <br>                  |  |    |
| <b>3</b>              | <b>RELEVANT THEORIES ON CORPORATE MERGERS AND ACQUISITIONS</b>         |    |
| 3.0                   | Introduction   | 45 |
| 3.1                   | Reasons for Merger and Acquisition                                     | 46 |
| 3.2                   | Efficiency Theories  | 48 |
| 3.3                   | Hubris Hypothesis  | 64 |
| 3.4                   | Agency Problems  | 66 |
| 3.5                   | Chapter Summary  | 72 |



|          |  |     |
|----------|--|-----|
| <b>4</b> | <b>EMPIRICAL EVIDENCE ON THE EFFECTS ON SHAREHOLDERS' WEALTH IN CORPORATE MERGERS AND ACQUISITIONS</b> |     |
| 4.0      | Introduction   | 74  |
| 4.1      | Wealth Effect on Mergers and Acquisitions  | 74  |
| 4.2      | Determinants of Shareholders' Wealth   | 99  |
| 4.3      | Mergers and Acquisitions of Financial Sector   | 112 |
| 4.4      | Chapter Summary  | 118 |
| <br>     |  |     |
| <b>5</b> | <b>DATA AND METHODOLOGY</b>  |     |
| 5.0      | Introduction   | 120 |
| 5.1      | Methodology  | 122 |
| 5.2      | Data and Variables   | 157 |
| 5.3      | Chapter Summary  | 170 |
| <br>     |  |     |
| <b>6</b> | <b>RESULTS ON WEALTH EFFECTS</b>   |     |
| 6.0      | Introduction   | 172 |
| 6.1      | M&A Activity in the Period 1985 – 1994   | 173 |
| 6.2      | M&A Activity in the Period 1995 – 2001   | 184 |
| 6.3      | Chapter Summary  | 204 |
| <br>     |  |     |
| <b>7</b> | <b>DIFFERENCES IN FIRM'S CHARACTERISTIC PRIOR AND POST M&amp;A ANNOUNCEMENTS</b>                       |     |
| 7.0      | Introduction   | 212 |
| 7.1      | M&A Activity in the Period 1985 – 1994   | 213 |
| 7.2      | M&A Activity in the Period 1995 – 2001   | 220 |
| 7.3      | Chapter Summary  | 237 |
| <br>     |  |     |
| <b>8</b> | <b>EFFECT ON FIRM'S CHARACTERISTICS ON SHAREHOLDERS' WEALTH</b>  |     |
| 8.0      | Introduction   | 242 |
| 8.1      | M&A Activity in the Period 1985 – 1994   | 243 |
| 8.2      | M&A Activity in the Period 1995 – 2001   | 248 |
| 8.3      | Chapter Summary  | 259 |
| <br>     |  |     |
| <b>9</b> | <b>DETERMINANTS OF WEALTH EFFECTS IN MERGER AND ACQUISITION</b>  |     |
| 9.0      | Introduction   | 266 |
| 9.1      | M&A Activity in the Period 1985 – 1994   | 267 |
| 9.2      | M&A Activity in the Period 1995 – 2001   | 273 |



|      |  |     |
|------|--|-----|
| 9.3  | Chapter Summary  | 282 |
| 10   | CONCLUSIONS, LIMITATIONS, IMPLICATIONS AND SUGGESTION FOR FURTHER RESEARCH |     |
| 10.0 | Introduction   | 290 |
| 10.1 | Summary of Research Findings   | 290 |
| 10.2 | Policy Implications  | 298 |
| 10.3 | Limitations and Suggestions for Further Research                           | 300 |
|      | REFERENCES   | 303 |
|      | LIST OF APPENDICES   |     |
|      | APPENDIX 1   | 329 |
|      | APPENDIX 2   | 366 |
|      | APPENDIX 3   | 367 |



## List of Tables

| <u>Table</u> | <u>Title</u>   | <u>Page</u> |
|--------------|--|-------------|
| 2.1          | Merger and Acquisition Announcements, Malaysia & U.S.A                                     | 27          |
| 2.2          | The identity of controlling owners in Malaysia (%) (1996)                                  | 28          |
| 2.3          | Average Annual Change of Selected Macroeconomic Indicators in Malaysia (%)                 | 30          |
| 2.4          | Malaysia :Selected Macroeconomic Indicators for 1986 – 2001                                | 33          |
| 2.5          | Bidder and Target Firms Involved in Mergers and Acquisitions                               | 35          |
| 2.6          | M&A Announcements by Method of Payment   | 36          |
| 2.7          | M&A Announcements Made By Listed Bidder Firms : 1985 – 2000                                | 39          |
| 2.8          | Number of New Listings and Total Number of Listed Companies in Bursa Malaysia, 1985 – 2001 | 40          |
| 3.1          | M&A Gains Related to M&A Theories  | 45          |
| 3.2          | Theories of Mergers and Acquisitions   | 48          |
| 4.1          | Summary of Shareholders Returns due to M&A for Bidder : Studies Before 1990                | 77          |
| 4.2          | Abnormal Returns Associated with Mergers for Bidder  | 78          |
| 4.3          | Summary of Shareholders Returns due to M&A for Bidder : Studies 1990 – 1999                | 81          |
| 4.4          | Summary of Shareholders Returns due to M&A for Bidder : Studies 2000 - 2006                | 83          |
| 4.5          | Summary of Shareholders Returns due to M&A for Target : Study Before 1990                  | 86          |
| 4.6          | Summary of Shareholders Returns due to M&A for Target : Study from 1990 – 1999             | 89          |
| 4.7          | Summary of Shareholders Returns due to M&A for Target : Study from 2000 – 2006             | 90          |
| 4.8          | Summary of Shareholders Returns to Bidders due to M&A Partitioned by Method of Payment     | 96          |





|      |  |     |
|------|--|-----|
| 4.9  | Summary of Shareholders Returns to Targets due to M&A Partitioned by Method of Payment                                 | 97  |
| 4.10 | Summary of Shareholders Returns due to M&A for Bidders and Targets from the Finance Sector                             | 114 |
| 5.1  | M&A Announcements  | 159 |
| 5.2  | M&A Announcements by Industrial Classification   | 160 |
| 5.3  | M&A Announcements by Type of Targets   | 160 |
| 5.4  | M&A Announcements by Method of Payment : Cash or Shares  | 161 |
| 6.1  | Bidder and Target Share Price Performance Surrounding M&A Announcements Whole Sample                                   | 174 |
| 6.2  | Bidder and Target Share Price Performance Surrounding M&A Announcements : Non-Finance Sector                           | 178 |
| 6.3  | Bidder and Target Share Price Performance Surrounding M&A Announcements: Finance Sector                                | 180 |
| 6.4  | Bidder and Target Share Price Performances Surrounding M&A Announcements Segregated By Method of Payment : Share Offer | 183 |
| 6.5  | Bidder and Target Share Price Performance Surrounding M&A Announcements : Whole Sample                                 | 187 |
| 6.6  | Bidder and Target Share Price Performance Surrounding M&A Announcements, Non-Finance                                   | 190 |
| 6.7  | Bidder and Target Share Price Performance Surrounding M&A Announcements, Finance                                       | 194 |
| 6.8  | Bidder and Target Share Price Performance Surrounding M&A Announcements Segregated By Method of Payment : Share Offer  | 198 |
| 6.9  | Bidder and Target Share Price Performance Surrounding M&A Announcements Segregated By Method of Payment : Cash Offer   | 202 |
| 6.10 | Bidder and Target Share Price Performance Surrounding M&A Announcements for M&A Activity in the Period 1985 – 1994     | 205 |



|      |  |     |
|------|--|-----|
| 6.11 | Bidder and Target Share Price Performance Surrounding M&A Announcements for M&A Activity in the Period 1995 – 2001 | 207 |
| 6.12 | Bidder and Target Share Price Performance Surrounding M&A Announcements Based on Method of Payment, Whole Sample   | 209 |
| 7.1  | Test of Pre- and Post M&A of the Bidder Firms' Characteristics (n = 138)   | 214 |
| 7.2  | Test of Pre- and Post M&A Announcement Characteristics of Bidder acquiring Listed Target (n = 25)                  | 216 |
| 7.3  | Test of Pre- and Post M&A Announcement Characteristics of Bidder acquiring Non-listed Target (n = 97)              | 217 |
| 7.4  | Test of Pre- and Post M&A Announcement Bidder Firm Characteristics (n = 735)                                       | 221 |
| 7.5  | Test of Pre- and Post M&A Announcement Target Firm Characteristics (n = 80)  | 224 |
| 7.6  | Pre- and Post M&A Announcement Characteristics of Bidders that acquire Listed Target (n = 90)                      | 226 |
| 7.7  | Pre- and Post M&A Announcement Characteristics of Bidders that acquire Non-listed Target (n = 645)                 | 228 |
| 7.8  | Pre- and Post M&A Announcement Characteristics of Bidders in the Finance Sector (n = 182)                          | 231 |
| 7.9  | Pre- and Post M&A Announcement Characteristics of Targets in the Finance Sector (n = 42)                           | 232 |
| 7.10 | Pre- and Post M&A Announcement Characteristics of Bidders that acquire Listed Target (n = 49)                      | 234 |
| 7.11 | Pre- and Post M&A Announcement Characteristics of Bidders that acquire Non-listed Target (n = 133)                 | 234 |
| 7.12 | Pre- and Post M&A Announcement Characteristics of the Non-Finance firms for M&A Activity in the Period 1985 - 1994 | 238 |
| 7.13 | Pre- and Post M&A Announcement Characteristics of the Non-Finance Firms for M&A Activity in the Period 1995 - 2001 | 239 |
| 7.14 | Pre- and Post M&A Announcement Characteristics of the Finance Firms for M&A Activity in the Period 1995 - 2001     | 240 |



|      |  |     |
|------|--|-----|
| 8.1  | Spearman rank correlation, $r_s$ , between Specific Bidder Firm's Characteristic and Cumulative Abnormal Returns (n = 122)               | 244 |
| 8.2  | Spearman rank correlation, $r_s$ , between Specific Characteristics of Bidder Firm's that acquire Listed Target and CAR (n = 25)         | 246 |
| 8.3  | Spearman rank correlation, $r_s$ , between Specific Characteristics of Bidder Firm's that acquire Non-listed Target and CAR (n = 97)     | 247 |
| 8.4  | Spearman rank correlation, $r_s$ , between Specific Bidder Firm's Characteristic and Cumulative Abnormal Returns (n = 719)               | 249 |
| 8.5  | Spearman rank correlation, $r_s$ , between Specific Target Firm's Characteristic and Cumulative Abnormal Returns (n = 80)                | 250 |
| 8.6  | Spearman rank correlation, $r_s$ , between Specific Characteristics of Bidder Firm's that acquire Listed Target and CAR (n = 74)         | 252 |
| 8.7  | Spearman rank correlation, $r_s$ , between Specific Characteristics of Bidder Firm's that acquire Non-listed Target and CAR (n = 645)    | 253 |
| 8.8  | Spearman rank correlation, $r_s$ , between Specific Bidder Firm's Characteristic and Cumulative Abnormal Returns (n = 182)               | 254 |
| 8.9  | Spearman rank correlation, $r_s$ , between Specific Target Firm's Characteristic and Cumulative Abnormal Returns (n = 42)                | 256 |
| 8.10 | Spearman rank correlation, $r_s$ , between Specific Characteristics of Bidder Firm's that acquire Listed Target and CAR (n = 49)         | 257 |
| 8.11 | Spearman rank correlation, $r_s$ , between Specific Characteristics of Bidder Firm's that acquire Non-listed Target and CAR (n = 133)    | 258 |
| 8.12 | Spearman rank correlation between Specific Characteristics of Firms in the Non-Finance Sector for M&A Activity in the Period 1985 – 1994 | 260 |
| 8.13 | Spearman rank correlation between Specific Characteristics of Firms in the Non-Finance Sector for M&A Activity in the Period 1995 – 2001 | 262 |



|      |   |     |
|------|---|-----|
| 8.14 | <b>Spearman rank correlation between Specific Characteristics of Firms in the Finance Sector for M&amp;A Activity in the Period 1995 – 2001</b>                           | 264 |
| 9.1  | <b>Regression Analysis of Cumulative Abnormal Returns and Bidder Firm's Characteristics</b>   | 268 |
| 9.2  | <b>Regression Analysis of Cumulative Abnormal Returns and Firm's Characteristics for Bidders that acquire Non-Listed Targets</b>  | 272 |
| 9.3  | <b>Regression Analysis of Cumulative Abnormal Returns and Firm's Characteristics for Bidders and Targets</b>  | 274 |
| 9.4  | <b>Regression Analysis of Cumulative Abnormal Returns and Firm's Characteristics, for Bidders that acquire Listed and Non-Listed Targets</b>                              | 276 |
| 9.5  | <b>Regression Analysis of Cumulative Abnormal Returns and Bidder Firm's Characteristics in the Finance Sector</b>   | 279 |
| 9.6  | <b>Regression Analysis of Cumulative Abnormal Returns and Firm's Characteristics of Bidder that acquire Non-Listed Targets</b>  | 281 |
| 9.7  | <b>Summary of Regression Analysis of Cumulative Abnormal Returns and Characteristics of Firms in the Non-Finance Sectors for M&amp;A Activity in the Period 1985-1994</b> | 284 |
| 9.8  | <b>Summary of Regression Analysis of Cumulative Abnormal Returns and Characteristics of Firms in the Non-Finance Sectors for M&amp;A Activity in the Period 1995-2001</b> | 286 |
| 9.9  | <b>Summary of Regression Analysis of Cumulative Abnormal Returns and Characteristics of Firms in the Finance Sectors for M&amp;A Activity in the Period 1995-2001</b>     | 287 |



## List of Figures

| <b><u>Figure</u></b> | <b><u>Title</u></b>  | <b><u>Page</u></b> |
|----------------------|--|--------------------|
| 2.1                  | Process of Mergers and Acquisitions  | 23                 |
| 2.2                  | Offer Process of Bidding and Target Firms  | 25                 |
| 2.3                  | Percentage Change of M&A Announcements, Malaysia and U.S.A   | 29                 |
| 2.4                  | M&A Announcement, KLCI, Interest Rates and GDP Growth  | 34                 |
| 3.1                  | Process of Realising Synergistic Gains   | 55                 |
| 3.2                  | Economies of Scale and Firm's Optimal Size   | 56                 |
| 5.1                  | Window of Study  | 127                |
| 5.2                  | Duration for Financial Statements Collected  | 163                |
| 6.1                  | CAR of Bidder and Target Firms 90 days before through 60 days after M&A announcement, Whole Sample               | 173                |
| 6.2                  | CAR of Bidder and Target Firms from the Non-Finance Sector 90 days before through 60 days after M&A announcement | 177                |
| 6.3                  | CAR of Bidder and Target Firms 90 days before through 60 days after M&A announcement in Share Offer              | 182                |
| 6.4                  | CAR of Bidder and Target Firms 90 days before through 60 days after M&A announcement, Whole Sample               | 185                |
| 6.5                  | CAR of Bidder and Target Firms from the Non-Finance Sector 90 days before through 60 days after M&A announcement | 190                |
| 6.6                  | CAR of Bidder and Target Firms from the Finance Sector 90 days before through 60 days after M&A announcement     | 194                |
| 6.7                  | CAR of Bidder and Target Firms 90 days before through 60 days after M&A announcement in Share Offer              | 197                |
| 6.8                  | CAR of Bidder and Target Firms 90 days before through 60 days after M&A announcement in Cash Offer               | 201                |



## **List of Abbreviations**

| <b><u>Abbreviation</u></b> | <b><u>Title</u></b>              |
|----------------------------|----------------------------------|
| 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