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WEALTH EFFECT OF INTERNATIONAL INVESTMENT ANNOUNCEMENTS: EVIDENCE FROM DEVELOPING MARKET

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ABSTRACT

This research provides evidence on the efficiency of one of the fastest developing and largest emerging securities market (Kuala Lumpur Stock Exchange, KLSE) in the Asia Pacific rim with respect to foreign investment announcements. Specifically, our study focuses on international investment announcements made in 1990 through 2000 for firms listed on the main board of the KLSE of Malaysia. The result shows that the announcements of foreign investment produce a significant positive daily abnormal return surrounding the event period. This implies that foreign investment announcements made by listed Malaysian firms do contain new relevant information which may creates market movements. At the same time, since the reaction is significantly positive, this implies that investors generally favor the international investment efforts of Malaysian firms listed at KLSE. In addition, it is also discovered that the economic development of the target country does influence the wealth creation process.

INTRODUCTION

This study focuses on the market reaction towards foreign investment announcements made by Malaysian Multinational Corporations (MNCs). There are three fundamental questions that this study attempt to address: (1) Do foreign investment announcements contain new information which may creates market reaction? (2) Do shareholders benefit from their firm's foreign investment decisions? (3) Do the characteristics of the foreign investments such as economic development of the target country influence shareholders wealth creations? In order to provide answers to these questions, an event study has been conducted.

In previous studies that have employed event study methodology, it is hypothesized that firm specific news do have some valuation implications. Fama, Fisher, Jensen, and Roll (1969), conducted an examination on firm specific news in the form of stock splits announcements. They discover that firm's stock price reacted to the announcements and it adjusted according to the investor's reassessment of the future dividend after the stock splits. Numerous other studies also have examined the various types of firm-specific news and how the market reacted to them. Among them: Masulis (1980), Ball, Brown, and Finn (1977) on capital structure changes; Bradley, Desai, and Kim (1988) on merger and acquisitions; Scholes (1972) on common stock's right issues; Chan, Gau, and Wang (1995) on business relocation, etc. Using data of Malaysian firms, this paper adds to the existing literature by examining an additional type of firm specific news, that is foreign investment announcements.

On the local scene, using event methodology technique, Fauzias (1993, 2004) analyze the impact of firm's acquisition announcement as well the bank merger announcement on stock prices. Similarly in terms of technique, Annuar and Shamsher (1992, 1993) analyze the effects of stock splits and rights issues announcements on share prices in Malaysia. In particular, they discover that these announcements create movements in the market and the reactions eventually produce positive abnormal return to the investors. Thus, if foreign investment announcements are similar to those announcements studied by Annuar and Shamsher, and they contain new information, the market price should change upon the release of such information. At the same time, if the market views the foreign investment announcements favorably, the stock prices of firms associated with these foreign activities should increase upon such announcements.

In developed capital market, studies that examine stock price reactions towards firm's foreign investment announcements have produced inconclusive results. Research done by Etebari (1993) examine the reaction of United States (US) stock priced towards 25 international joint ventures announcements between US firms and firms in eastern and central European countries. The results show that the stock price of the respective US firms reacted positively towards the announcement. Cructchley, Guo, and Hansen (1991) discover that both the Japanese and the US market produce positive response when there is an announcement of international cooperation between firms from these two countries. Lummer and McConnell (1990) provide evidence that foreign joint ventures for US firms produce positive return as the joint ventures are viewed firm value enhancement. In addition, it was also discover that the stock price reacted more significantly positive, especially when the venture partner is a foreign firm as opposed to a foreign government. Doukas and Travlos (1988) find that US multinationals benefit the most when they announce acquisitions in less developed countries. They also find that multinationals not already operating in the target's country benefit from their announcement acquisitions.

Despite numerous studies that documenting positive stock market reactions towards foreign investment announcements, there are also studies that provide evidence of negative reaction by the market towards such announcements.

Markides and Ittner (1990) discover that investors reaction to US firm's foreign ventures with foreign firms in Canada and the United Kingdom (UK) is negative and only joint ventures with firms in Continental Europe create positive wealth effect. In Europe, Fatemi and Furtado (1988) find that Germany's foreign investments announcements are taken unfavorably by the market.

Theoretical arguments have been advanced over the years to explain the potential effects of foreign investments on firms involved in it and eventually to the shareholders of the firms. Some arguments suggest that significant benefits should accrue to the shareholders of firms involved in while others suggest that the effects may be negative. In either cases the effects shall transpire on the specific firm's stock prices

In terms of potential positive effects of foreign investment, Shapiro (1996) suggests that the benefits may arise based on the fact that the economies of different countries in which the multinationals operate are less than perfectly correlated. When the countries are less than perfectly correlated, this will help firms in reducing the variability of their earnings provided they have their investments in multiple countries. Also by expanding internationally, firms will be able to increase their market shares. One of the benefits of serving a bigger market to firms is that, they may be able to achieve the stage of economies of scale faster. In addition, foreign investments in the form of joint ventures may also allow firms to enter markets in which they would not otherwise have access. This is particular true in those instances in which foreign government prohibits 100 percent foreign ownership of subsidiaries. Because such foreign investment characteristics could improve firm's profitability, higher stock returns could be associated with any foreign investment announcements.

On the other hand, there are also several arguments supporting negative effects of such firm's activities. Jensen's (1986) free cash flow theory suggests that managers sometimes may be inclined to over-invest in some unprofitable projects due to the motivation of expanding firm's empire and obtaining prestige. These unprofitable foreign ventures ultimately will diminish the value of the parent firms. Madura (2000) argues that when firms expand beyond their national borders, they have to operate within a new sets of national and corporate cultures. Unfamiliarity to such culture barriers can represent formidable challenge and they can offset the gain a firm might obtain from international expansion. In addition, country risk may also reduce the potential benefits of foreign investments. Changes in economic and political factors in the host country such as inconsistency in policy implementations brought on by frequent changes in the government's structure, blocked funds, or expropriation are examples of country risk and they may have adverse effects on firm's cash flows. Lastly, foreign investment is further complicated by exposure to exchange rates and potential conflicts with the foreign joint venture partner which can overwhelm the benefits of the joint venture.

In general, although studies on stock price reaction to foreign investment announcements are abundant, unfortunately there are none that gave focused on the stock market located in the developing market. In order to substantiates evidence on the efficiency of developing stock market with respect to foreign investment announcements, this study focuses on Kuala Lumpur Stock Exchange (KLSE), one of the fastest developing and the largest emerging securities market in the Asia Pacific rim (Annuar & Shamsher, 1992).

Specifically, the results show that the announcements of foreign investment produce a significant positive daily abnormal return surrounding the event period. This implies that foreign investment announcements do contain new relevant information that create movements in the market. At the same time, since the reaction is significantly positive, this implies that investors generally favor the international investment efforts of Malaysian firms listed at KLSE. Lastly, it is also found that the level of economic development of the target country does influence the wealth creation process.

FOREIGN INVESTMENTS OF MALAYSIAN COMPANIES

According to Madura (2000), foreign investments can be in many forms. Among them are acquisitions of existing companies in foreign countries, a joint venture with companies in foreign countries, and opening up a company's subsidiary in foreign countries. Companies that conduct any of these forms of investments in foreign countries are known as MNCs (Dunning, 1993). Bala (1999) conducted a survey of foreign investments conducted by firms listed at KLSE in order to identify MNCs originating from Malaysia. From the 436 listed firms (as at October 1997), he discovers that 207 firms are actively involve in foreign investment activities and they can be considered as MNCs.

In that survey, it was also discovered that 17 companies have more than 20 ongoing foreign investment projects in various countries. Top of the list is Sime Darby with 110 ongoing foreign investment activities spanning in 19 countries. Second is Amsteel with 70 ongoing foreign investment activities and this is followed by MBF Holdings with 60 (Bala, 1999).

The geographical spreads of Malaysia's MNCs investment activities are also wide. In total, the top Malaysian MNCs had an ongoing foreign investment in 63 countries around the world. The spread of these investments according to region is shown in Table 1. It is interesting to note that in comparison to other developed regions, the Northeast Asia and the ASEAN (Association of Southeast Asian Nations) regions (developing regions), receive the most of Malaysia's MNCs foreign investments. Perhaps, this is due to the inferiority of technology and "know-how" of the Malaysia's MNCs. In general, these two factors may have deterred many MNCs based in developing countries from venturing into the western countries and compete with the much-sophisticated firms in those markets (Lall, 1986).

However, despite the technical disadvantages that Malaysian MNCs may have when competing against firms in developed countries, there are still several foreign investment made by the MNCs in those regions (see Table 1). Bala (1998) points out that majority of such investments took place in countries such as US, Europe and Australia and the investments took shape in the formed of fixed assets with less technology requirements. Examples of foreign investments with less technology requirements would be investments in hotels chain, restaurants, and marketing chains (Bala, 1998). Since the technology requirements are less for such investments, this give an opportunity for Malaysian MNCs to compete more competitively with local firms in those countries.

TABLE 1
SPREAD OF MALAYSIAN MNCs FOREIGN INVESTMENTS ACCORDING TO REGION

Region	Number of foreign investments
Asean	
Singapore	29
Indonesia	15
Thailand	9
Philippines	9
Europe	
UK	15
Netherlands	8
Germany	7
France	6
Northeast Asia	
China	22
Hong Kong	24
Taiwan	4
Japan	3
Korea	2

(continued on next page)

TABLE 1. *(Continued)*

Region	Number of foreign investments
North America	
USA	17
Canada	5
South Pasific	
Australia	20
New Zealand	1
Papua New Guinea	6

Source: Bala (1999)

There are also others initial surveys on Malaysian MNC in the past, and one of the earliest was by Heenan and Keegan (1979). The objective of their survey is to identify MNCs originating from the Third World Countries. During that period, they find only one company that fitted their definition of MNC and it was the Sime Darby Holdings. In more recent study, Annuar, Supian, and Anuwar (1996) consider companies like Technology Resources Industries (TRI), Sapura Telecommunications Berhad, Telekom Malaysia and Petronas as Malaysia's major MNCs. United Nations Conference on Trade and Development (UNCTAD) (1999), in their study to identify Third World multinationals firms listed Petronas and Sime Darby in their top 50 multinationals firms from developing countries based on foreign assets invested.

TESTABLE HYPOTHESIS

By looking at the past and more recent surveys (Bala, 1999; UNCTAD, 1999; Annuar et al., 1996; Heenan & Keegan, 1979), it seems that the number of MNCs that are based in Malaysia have increased significantly over the years. As a matter of fact, Bala (1999) points out as of 1997, half of the firms that are listed on the KLSE are MNCs. Because of the significant large number, and due to the fact that any information about their foreign activities has to be disseminated to the public as required by the listing requirement, it is generally safe to conclude that foreign investments news are something that are not totally scarce to the participants of the Malaysian capital market. In addition, because market participants can capitalize on such news in order to insure profitability of investments, the foreign investment news would now become very relevant. In short, because such information is relevant and the Malaysian capital market participants has been exposed to it over the years, the market should react to any announcement on foreign investment by any Malaysian MNCs.

A prudent firm will not be involved in a foreign investment unless the investment is expected to generate positive return to the firm and the shareholder (David & Qian, 1997). The same can be said about firms in Malaysia. Generally, Malaysian firms will engage in foreign investment activities only if they are sure that the investments will bring positive returns. Therefore, if the number of foreign investment activities by Malaysian MNCs are increasing as pointed out earlier, this is likely to imply that Malaysian MNCs have encountered success in their past foreign investments activities and with that they are confidence to pursue more foreign activities. A successful foreign investment project increases firm's profit and also creates wealth for the shareholders of the firm. Hence in lieu to the increasing number of successful foreign activities and how that can impact shareholder wealth, we hypothesize that the market shall react positively to news or announcement of foreign investments involving Malaysian MNCs.

We suspect that the level of economic development of the target countries may have some influences on any abnormal return arising from foreign investment conducted by Malaysia's MNCs. This hypothesis is based on findings from past studies such as Ueng, Kim, and Lee (2000); Doukas and Travlos (1988) which show variations in abnormal returns when factors such as country development is considered. Thus, in the case of Malaysian MNCs, we are also interested to see if there is variation in the abnormal return created from the foreign investment news if we take into consideration the level of economic development of the target country as well (i.e. developing or developed country).

Theoretically, there are advantages and disadvantages engaging in foreign investment activity in either developing or developed countries. However, investing in developing countries is presumably more beneficial for Malaysia's MNCs than investing in developed market. In general, Malaysia's MNCs still do not possess the superior technology or "know-how" that firms from developed countries have. Therefore, it may be difficult to compete with western firms in their home countries. However, the technology and "know-how" of Malaysian MNCs may be more adaptable in developing countries. Furthermore, since the business environment of these developing countries are very much like in Malaysia (Bala, 1999), this enable Malaysian MNCs which are familiar with such environment to compete more successfully with local firms in those regions. Hence, we can hypothesize that announcements of foreign investments in developing countries shall lead higher abnormal returns around announcement date.

In order to analyze the influence of target country's economic development on the abnormal return created, the overall sample of announcements are divided into two groups – developed and developing countries. In order to classify firms into these two broad groups, we utilized the classification of UNCTAD (1999). Based on the level of economic development that has took shape in a country (i.e. infrastructure, GDP, and education), UNCTAD classifies countries into developing or developed country. Doukas and Travlos (1988) employed similar country classification in their study to see whether the wealth effect generated by US based MNCs foreign investments is pertinent to the level of economic development of the target country.

Based on this classification, our samples produce 30 foreign announcements intended for developed countries and the remaining for developing countries (see Table 2).

TABLE 2
FOREIGN INVESTMENTS ANNOUNCEMENTS IN TERMS OF COUNTRY OF INVESTMENTS MADE BY MALAYSIAN MNCs (1990–2000)

Developed countries		Developing countries	
Country	No. of announcement	Country	No. of announcement
Switzerland	1	Thailand	3
Germany	1	China	4
Singapore	2	Vietnam	4
Canada	1	Philippine	3
USA	7	Indonesia	4
Sweden	1	Cambodia	3
Holland	1	India	2
New Zealand	1	Chile	1
Japan	3	South Africa	3
France	1	Albania	1
UK	2	Ghana	1
Australia	7	Uzbekistan	1
Finland	1		
South Korea	1		
Subtotal	30		30
Total = 60			

Standard event-study methodology is used to assess the impact of foreign investment announcements on stock returns. The most crucial assumption of the methodology is that capital market are efficient (in the semi-strong form). This implies that the price of any security incorporates all currently available public information and adjusts to the public release of new information instantaneously.

The commonly used event-study methodology is based on a market model describe by Fama (1976). The model helps predict a firm's normal or expected return given the market return and the firm historical relationship to the market. Thus, for each firm the following model is estimated:

$$E\,R_{it} = a_i + b_i\ R_{mt} + e_{it} \tag{1}$$

where

$E\,R_{it}$	=	expected return on the security of firm *i* at time *t*
R_{mt}	=	return on the market portfolio at time *t*, proxied by the return on the Kuala Lumpur Composite Index (KLCI)
a_i and b_i	=	parameters of the relationship between the return on the individual security and that of the market
e_{it}	=	residual of the relationship at time *t*

The parameter alpha (a_i) and beta (b_i) are estimated for each security *i* over the period of *three years* prior to the announcement of the foreign investments. These parameters are then used to calculate the expected returns over the test period.

The difference between the actual returns $\left(R_{it}\right)$ and the expected returns for each day and for each firm are called abnormal returns $\left(AR_{it}\right)$, and are computed as follows:

$$AR_{it} = R_g - \left(\hat{a} + \hat{b}R_{mt}\right) \tag{2}$$

Where $\hat{a}$ and $\hat{b}$ are the estimated parameters *a* and *b* of firm *i*. The abnormal returns (AR) of each company stock are determined over the event period of 29 days (*t* = –14 to *t* = +14). If announcements of foreign investment have no impact on stock prices, then on average, one should expect abnormal returns to be *zero*. Also in this study, we *aggregate* all of firm's abnormal return observations in order to draw overall inferences for the event of interest. We look at the average effects of the announcement rather than examining each firm separately, because other events are occurring and averaging across all firms should minimize the effect of these other events (Haugen, 2001). For sample of *N* firms, a daily average AR for each day *t* is obtained:

$$AR_t = \frac{1}{N}\sum_{j=1}^{N} AR_{jt} \tag{3}$$

In order to determine if there is an impact of foreign investment announcements on stock returns, which will produce a significant average daily abnormal return, the student t-test statistic on any day *t* in the event window for all *n* stocks is constructed.

$$t\text{-statistic} = AR_t/\sigma_{ARt} \qquad (4)$$

where

σ_{Art} = standard deviation of average AR over the event period of (t = –14 to t = +14)

One would expect if the foreign investment announcements do not have an impact on common stock return listed on KLSE, the daily average AR for all the sample stocks surrounding the event period should not be statically significantly different from zero.

EMPIRICAL RESULTS

Overall Sample

Table 3 shows the average daily AR, the t-value for the total sample of 60 foreign investment announcements for the period –14 to +14 days. As shown in Table 3, the announcements of foreign investment (on day = 0) produce a significant positive daily AR of 0.01142 (*t*-statistic of 2.14). This result implies that foreign investment announcements do contain new relevant information which create movements in the market. Also, investors generally react favorably to the international investment efforts of Malaysian firms listed at KLSE. This is evidenced by the significant positive reaction of the market to announcement of investments in foreign countries.

Overall, the finding shows that foreign investments activities engage by Malaysian MNCs are value increasing activities for shareholders of Malaysian firms. Results are consistent with the findings of Etebari (1993), Cructchley et al. (1991), and Lummer and McConnell (1990) which reveal that international expansion benefits shareholders of firms that engage in such activities.

TABLE 3
ABNORMAL RETURNS AROUND FOREIGN
INVESTMENT ANNOUNCEMENTS (OVERALL SAMPLE)

Day	AR	t-value on (AR)
–14	0.00282	0.52854
–13	–0.00783	–1.46843
–12	0.00130	0.24400
–11	0.00232	0.43588
–10	0.00153	0.28797
–9	–0.00110	–0.20723
–8	–0.00612	–1.14722
–7	0.00513	0.96149
–6	–0.00515	–0.96597
–5	0.00582	1.09141
–4	0.00375	0.70383
–3	–0.00940	–1.76238
–2	–0.00044	–0.08342
–1	0.00050	0.09464
0	0.01142	2.14173*
1	0.00345	0.64698
2	0.00620	1.16361
3	–0.00200	–0.37579
4	–0.00686	–1.28626
5	0.00223	0.41957
6	0.00685	1.28539
7	–0.00260	–0.48826
8	–0.00539	–1.01005
9	0.00598	1.12100
10	–0.00613	–1.14909
11	–0.00984	–1.84403
12	0.00067	0.12562
13	0.00345	0.64682
14	0.00208	0.39114

* Significant at 5% level

LEVEL OF ECONOMIC DEVELOPMENT OF TARGET COUNTRY

Table 4 present AR over the (t = –14 to t = 14), t-values for the sample of 30 samples announcements of Malaysian MNCs pertaining to investment in developed countries and the other 30 samples announcements of Malaysian MNCs pertaining to investment in developing countries.

TABLE 4
ABNORMAL RETURNS ARROUND FOREIGN INVESTMENT ANNOUNCEMENTS PERTAINING TO INVESTMENTS IN THE DEVELOPED AND DEVELOPING COUNTRIES

	Panel A		Panel B	
	Developed countries		Developing countries	
Day	AR	*t*-value on (AR)	AR	*t*-value on (AR)
–14	–0.00154	–0.13948	0.00253	0.34665
–13	–0.01423	–0.37961	–0.01411	–1.92673
–12	–0.03347	–0.77732	0.01016	1.38883
–11	0.03045	0.71471	–0.00197	–0.26975
–10	0.04191	1.04959	–0.00386	–0.52722
–9	0.02406	0.67106	–0.00391	–0.53441
–8	–0.04638	–1.17464	–0.00502	–0.68551
–7	0.00530	0.08351	0.00773	1.05726
–6	–0.01390	–0.37577	–0.00893	–1.22063
–5	–0.00050	0.06762	0.01440	1.96802
–4	0.04642	1.17788	0.00035	0.04782
–3	–0.05073	–1.16191	–0.00681	–0.93094
–2	–0.04307	–1.09899	0.00554	0.75821
–1	0.03526	0.88938	–0.00461	–0.62936
0	0.18266	4.7123*	–0.00271	–0.37044
1	0.04955	1.27081	–0.00029	–0.03937
2	0.01841	0.49701	0.01058	1.44685
3	0.00387	0.16232	–0.00248	–0.33849
4	–0.10102	–2.66147	–0.00143	–0.19512
5	0.06377	1.77191	–0.00023	–0.03129
6	0.02443	0.56514	0.00812	1.10967
7	0.01317	0.42706	–0.00415	–0.56679
8	0.00846	0.21017	–0.01224	–1.67227
9	0.01270	0.24898	0.00755	1.03307
10	–0.02343	–0.57168	–0.00789	–1.07800
11	–0.06274	–1.61402	–0.01074	–1.46749
12	–0.01608	–0.45128	0.00238	0.32557
13	–0.03104	–0.80722	0.01103	1.50766
14	–0.01055	–0.33169	0.00367	0.50173

* Significant at 5% level

Table 4 (panel A) shows the results of the 30 foreign investment announcements made by Malaysian MNCs expanding internationally into developed countries. On average, the announcements pertained to investments in developed markets are associated with a significant positive AR of 0.182 (*t*-statistic of 4.71). However, the other 30 announcements (Table 4, panel B) of propose expansion into developing countries produce AR of –0.00271 (*t*-statistic of –0.3744). The overall results suggest that foreign investments in developed countries by Malaysian MNCs generate higher positive returns for their shareholders than those investments into developing countries. The results are consistent with the findings of Ueng et al. (2000), and Doukas and Travlos (1988).

CONCLUSIONS

Studies on stock price reaction towards foreign investment announcements in developed market have produced inconclusive results. Etebari (1993), Cructchley et al. (1991), and Lummer and McConnell (1990) provide evidence that market reacted positively to foreign investment announcements. In contrast, Markides and Ittner (1990), and Fatemi and Furtado (1988) have documented that the market reacted significantly negative to similar announcements. For developing market like Malaysia, research in this area is still scarce. Therefore, in order to substantiates evidence on the efficiency of developing stock market with respect to foreign investment announcements, this study focuses on KLSE. The emphasis is on foreign investment announcements made from 1990 to 2000 for stock listed on the main board of the KLSE. The main objectives of this study are finding out whether or not: (1) foreign investment announcement is a relevant information and market reacts toward it, (2) what forms of market reactions do this information produce, and (3) do level of development of the target country influence shareholders wealth creations?

The results show that the AR of the securities are significantly positive surrounding the event period. This result implies that unexpected foreign investment announcements do contain new relevant information and at the same time do move the market. Also, investors generally react favorably to the international investment efforts of Malaysian firms listed at KLSE. This result is consistent with findings made by Etebari (1993), Cructchley et al. (1991), and Lummer and McConnell (1990).

Overall, the market response positively towards Malaysian multinational firm's cross border investment announcements. We try to find possible explanation for this phenomenon. Among many explanations that we can relate to, the explanation provided by David and Qian (1997) in their study on multinationals based in Singapore, seems most reasonable. According to them, Singapore is a small open economy. As the economy matures, Singapore's market becomes saturated and competition among firms intensified. In order to sustain competitiveness, the only solution for these firms is to operate in new market or countries where opportunities are still very much available. Similar scenario could be observed for some of the industries in Malaysia. These industries are also slowly approaching the maturity stage and phenomena of market saturation seems inevitable (Bala, 1998). Therefore, strategy to invest and operate in other countries seems appropriate because it can help to boost firms profitability and competitiveness. Hence, announcement to go abroad should be perceived as positive sign by the market.

Another point that is worth mentioning is with regard to the locations (target country) of the investments made by Malaysian MNCs. Ironically and inconsistent with the general perceptions, the market seems to favor foreign investments in developed countries rather than developing countries. This is despite the technology advantages that Malaysian MNCs posses when operating in developing countries as mentioned earlier. Perhaps this strange phenomenon can be explained by looking at the arguments posed by Madura (2000). According to him, foreign investments in developing countries are perceived to bare more political risk.

Examples of political risk as explained by Madura would be unilateral change of contract, rules or standards without proper considerations to the MNCs, discriminatory taxes, import restrictions on raw materials needed for processes, and restrictions to repatriate funds to parent company, all of which might disrupt the long term plans and profitability of the MNCs.

Other than political risk, project undertaken in developing countries is also said to be in a more volatile operating environment than a project in larger developed countries. The volatility is due to potentially greater infrastructure risk, customer risk, banking system/payment risk, labor risk, and political risk (Madura, 2000). In short because all of these factors may hurt the operations of any Malaysian MNCs, it will instill the idea among the local investors that investment in developing countries will always have a detrimental effect on firm's value. These negative perceptions among the investors ultimately will manifest itself in the form of share disposal each time when an announcement about foreign investment in developing countries is made. Thus, it creates the negative wealth effect as observed in our findings.

In general, our study enhances the literature of market efficiency on Malaysia stock market by examining an additional type of firm specific news – foreign investment announcements. In this study, we confirm results of previous foreign investment studies, which have found that such firm's foreign investment activities generate favorable wealth effects. In addition, we also discover that valuation effects are less favorable when foreign investments are established in developing country.

Our results raise a number of interesting issues that can be addressed in future works. Firstly, a study can also be conducted to determine if the AR created based on the announcement of foreign investments by the Malaysian MNC's may be related to the relative strength of the Malaysian currency (Ringgit Malaysia, RM). Mathur, Rangan, Chachi, and Sundaram (1994) find that a decline in the value of the US dollar is associated with more favorable abnormal returns to foreign investors pursuing investments in the US. Mathur et al. (1994) explain that the decline in US dollar lowers the cost of investments to foreign investors. Since lower cost guarantees higher profitability, therefore foreign investments in the US during this period, are perceived positively by the market. The same can be said for foreign investments conducted by Malaysia's MNCs. Higher value of RM in relation to the currency of the country invested in, can help to boost firm's profit, whereas the depreciation of RM leads to lower firm's profit. Hence, it would be interesting to see if we split the timing of the foreign investments into periods of strong RM and weak RM, would it results in different forms of AR?

Secondly, because it was found that announcements of foreign investment activities do move the market, it would be interesting to see if such results are pertained to a specific firm's factors. In the study by David and Qian (1997), factors such as profitability, research and development expenditure are found to significantly explain the positive AR of Singapore MNC's at the time when they announced about their plan to invest in foreign markets.

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