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CROSS-BORDER MERGERS AND ACQUISITIONS: MALAYSIAN PERSPECTIVE

This article examines cross-border mergers and acquisitions (M&As) in Malaysia. The market model and cumulative abnormal return (CAR) method is used to measure the expected return of the acquirer's shareholders. This research also examines the magnitude and determinants of acquirer's shareholder returns using 252 samples of domestic and foreign acquisitions of Malaysia firms during the period 2004-2007 by running OLS on the CAR with the determinants. The estimation of the long-term wealth effects for a paired sample of acquiring and target firms based on the event window of 60, 120 and 180 days after the announcement date of the merger or acquisition was used. The regression results show that cross-border M&As in Malaysia attained higher return on the acquirer's wealth. However, the market climate was insignificant to the CAR which means there was no impact upon the market's climate towards these returns.

Keywords: *mergers and acquisitions; shareholder return; wealth effects.*

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ТРАНСГРАНИЧНІ ЗЛИТТЯ І ПОГЛИНАННЯ: ДОСВІД МАЛАЙЗІЇ

У статті розглянуто трансграничні злиття і поглинання в Малайзії. Для виміру очікуваного прибутку акціонерів покупця були використані модель ринку і метод кумулятивного доходу понад норму (CAR). Проаналізовано масштаби і детермінанти доходів акціонерів покупця з використанням 252 зразків вітчизняних і зарубіжних придбань компаній Малайзії в період 2004-2007 років із застосуванням МНК в CAR з детермінантами. Використано оцінку довгострокового ефекту багатства для парної вибірки фірми-покупця і цільової фірми на основі вікна подій в 60, 120 і 180 днів після оголошення дати проведення злиття або поглинання. Результати регресійного аналізу показали, що трансграничні злиття і поглинання в Малайзії стали забезпечувати вищі доходи для покупця. Проте ринковий клімат виявився незначущим для методу CAR, що означає, що не було жодного впливу на ринковий клімат відносно цих доходів.

Ключові слова: *злиття і поглинання; дохід акціонера; ефект багатства.*

Форм. 3. Рис. 3. Табл. 5. Літ. 55.

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ТРАНСГРАНИЧНЫЕ СЛИЯНИЯ И ПОГЛОЩЕНИЯ: ОПЫТ МАЛАЙЗИИ

В статье рассмотрены трансграничные слияния и поглощения в Малайзии. Для измерения ожидаемой прибыли акционеров покупателя были использованы модель рынка и метод кумулятивного дохода сверх нормы (CAR). Проанализированы масштабы и детерминанты доходов акционеров покупателя с использованием 252 образцов отечественных и зарубежных приобретений компаний Малайзии в период 2004-2007 годов, с применением МНК в CAR с детерминантами. Использована оценка долгосрочного эффекта богатства для парной выборки приобретающей и целевой фирм на основе окна событий в 60, 120 и 180 дней после объявления даты проведения слияния или поглощения. Результаты регрессионного анализа показали, что трансграничные слияния и поглощения

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в Малайзии стали обеспечивать более высокие доходы для покупателя. Тем не менее, рыночный климат оказался незначительным для метода CAR, что означает, что не было никакого влияния на рыночный климат в отношении этих доходов.

Ключевые слова: *слияния и поглощения; доход акционера; эффект богатства.*

Introduction. Mergers and acquisitions (M&As) are transactions where two or more companies are combined to become one entity (Weston & Copeland, 1992), and M&As are a common means through which companies achieve economies of scale, remove inefficient management or respond to economic shocks (Rachel, Armando, Kathleen and Markus, 2004). International mergers and acquisitions are among key corporate strategies which multinational corporations (MNCs) use to expand and diversify business (Larsen, 2007); (Choong et al., 2010).

In parallel with global trends, cross-border M&As have increased dramatically in Asian-Pacific economies especially since the mid-1990s. In 1998, APEC (Asia Pacific Economic Cooperation) attracted unusually large amounts of capital inflow which contributed to economic growth and economic recovery of the East and Southeast Asian economies from the economic crisis of the late 1990s (PECC, 2002). In the 1990s, the economy of Malaysia enjoyed a spectacular average growth of about 8% per year before the crisis (Malaysia, 1999), and as well take-over activities were actively transacted by corporations to expand their business in order to tap the opportunities posted in this fast growing market (Ghazali et al., 2011). From 1990-2000, based on the SDC Platinum of Thomson Financial Securities data of Worldwide mergers and acquisitions database, Malaysia accounted for 41% of the total deals and 38% of the M&A transaction values of target firms in the ASEAN region (Metwalli and Tang, 2002).

Using the UNCTAD, World Investment Report 2008, FDI inflows to South-East Asia increased by 18% in 2007, to $61 bln. (Table 1) resulting in yet another year of robust FDI growth. Singapore, Thailand, Malaysia, Indonesia and Vietnam, in that order, were the largest FDI recipients, and while FDI growth favours regional economic growth, improved investment environment, higher intraregional investments, and strengthened regional integration were the key contributory factors. Reinvested earnings were particularly strong, highlighting the importance of existing investors as a source of FDI.

Table 1. **South, East and South-East Asia: top 10 recipients of FDI inflows, 2006-2007 (Bln. of dollars)**

	Bln., 2006	Bln., 2007
China	72.7	83.5
Hong Kong	45.1	59.9
Singapore	24	25
India	19.5	23
Thailand	9	9.5
Malaysia	6	8.3
Taiwan	7.5	8
Indonesia	5	7
Vietnam	2.2	6.5
Pakistan	4	5.5

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1 Ranked by magnitude of 2007 FDI flows.

Table 2 depicts the FDI inflows between 2005-2007 of the M&As activities, and where they were spent in manufacturing and services. Cross-border M&A sales contributed to the increase in FDI inflows to all the sectors.

Table 2. **South, East and South-East Asia: cross-border M&As, by sector/industry, 2005-2007 (Mln. of dollars)**

Sector/Industry	Sales 2005	Sales 2006	Sales 2007	Purchase 2005	Purchase 2006	Purchase 2007
Total	52,454	61,402	81,523	49,205	56,721	89,025
Primary	345	2,365	7,956	4,618	7,433	5,058
Agriculture, hunting, forestry, fisheries	72	211	3,208	160	110	320
Mining, quarrying petroleum	272	2,155	4,748	4,457	7,323	4,738
Manufacturing	14,615	13,063	20,386	9,941	12,703	22,976
Food, beverages, tobacco	6,309	1,337	6,680	1,826	1,093	3,020
Wood, wood products	94	213	1,274	44	141	21
Coke, petroleum, nuclear fuel	10	6	3	345	3,500	595
Chemicals, chemical products	3,340	913	1,917	680	1,846	1,773
Non-metallic mineral products	273	810	1,789	55	2	631
Metals, metal products	877	1,071	3,322	1,052	357	2,815
Machinery, equipment	36	2,501	1,325	47	791	5,719
Electrical, electronic equipment	2,641	2,981	2,598	4,496	1,491	6,121
Services	37,495	45,974	53,181	34,636	36,582	60,992
Electricity, gas, water	2,230	296	726	4,490	454	2,612
Construction	311	182	566	226	27	1,088
Hotels, restaurants	2,020	1,718	887	328	1,162	290
Trade	2,981	1,564	1,348	1,581	1,363	1,962
Transport, storage, communications	8,528	17,601	19,339	2,569	9,098	3,832
Finance	16,821	13,349	16,089	22,674	19,347	47,154
Business activities	3,926	8,822	11,311	2,624	4,861	3,442

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics)

Based on the empirical studies between 2005-2007, in general, companies with domestic M&A transactions experience lower operating costs and offer better stock performance, however, an international M&A is unlikely to be successful and this raises a pertinent contradiction to the growing trends of M&A transactions in Malaysia, where on average, the acquiring firm's shareholders experience significant wealth losses in domestic acquisitions (Lee et al., 2011). There seems to be another exception to this case of Malaysian domestic M&A contradiction by raising another, in that this seems not to be the case in international acquisitions. It is essential to identify the key success factors that cause wealth gains in M&A transactions which determine profits or losses from an M&A both inside and outside Malaysian economy.

The research objective of the study is to identify:

1) The factors supporting and aiding cross-border or domestic M&As to attain a better return to a acquirer's shareholder wealth.

2) The determinants or factors that actually increase acquirers' shareholder wealth in M&A activities.

Research Questions. This study attempts to answer the following questions:

1) What are the key success factors of a successful M&As transaction?

2) Do cross-border or domestic M&As actually yield a better shareholder's wealth?

3) What key factors determine the shareholder's wealth effects in an M&A?

Research Framework. Based on the past empirical research, a framework is developed to investigate the relationship among cross-border and domestic M&As, the M&A key success factors and acquirer's shareholder wealth (Figure 1).

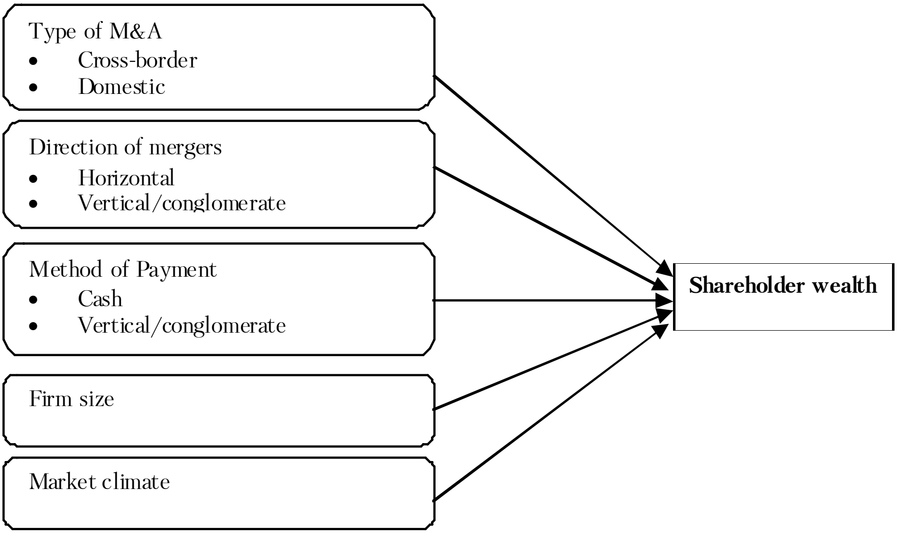

Figure 1. **Research Framework**

A regression analysis is used to identify the interaction effects between a type of M&A and shareholder wealth. The analysis also examines the relationships between the key success factors and shareholder wealth.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5, \quad (1)$$

where: Y = Shareholder wealth; X_1 = International or domestic mergers; X_2 = Direction of mergers; X_3 = Method of payment; X_4 = Firm size; X_5 = Market climate.

Independent variables:

- Type of M&A;
- Direction of mergers;
- Method of payment;
- Firm size;
- Market climate.

Dependent variables:

- Shareholder wealth.

Based on the above discussion, the following hypotheses are formulated:

H1: The returns to cross-border acquisition exceed the returns to domestic acquirer.

H2: Horizontal mergers attained better performance than vertical and conglomerate mergers.

H3: Payment in cash has effect on the returns of an acquisition.

H4: GDP growth has a negative effect on the returns of an acquisition.

H5: Firm size has impact on the shareholders wealth in M&A activities.

Sample selection and data sources

- Data collected was based upon secondary data. The sampling frame consisted of bids by domestic and foreign firms for Malaysian companies from 2004 to 2008, where acquiring firms are publicly stock exchange listed and quoted companies.

The GDP index of Malaysia (2004 to 2007) was obtained from the National Summary Data Page for Malaysia (Bank Negara, 2007)

Methodology. Event studies were analyzed using the normalized share prices of the bidder and the target organization about the time of the M&A announcement. The term "abnormal return" is the return exceeding the return expected if there were no merger announcement. The actual return after the public bid should then be corrected and interpreted, where the market model method is used to measure the abnormal return (Brown & Warner, 1980).

Data Analysis Techniques. In this paper, the statistical analysis was undertaken using SPSS software and the linear regression method was used to examine the effect of the determinants on the wealth of shareholders. Stepwise regression models are considered appropriate for each of the format choices using a minimum inclusion alpha of .05. Significance tests and beta estimates are used to evaluate the magnitude and direction of the effects of the determinants using the following regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4, \quad (2)$$

where Y = total cumulative abnormal return; X_1 = type of mergers; X_2 = method of payment; X_3 = GDP index; X_4 = firm size.

Empirical Results. The results for the coefficients computations are presented after SPSS evaluations of individual beta and of the individual cumulative abnormal returns (CARs) of each M&A activity in the sample. Table 3 presents the estimates for the mandatory α and β coefficients in the calculation of the expected returns of the acquiring companies under the market model method. The coefficients are calculated using SPSS software and by using a linear regression function across a 200-day period.

Coefficients(a)

Table 3. **Regression Analysis Results for Proton Holdings Berhad**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	.114	.046		2.477	.014
	Rm	.060	.015	.256	3.925	.000

Dependent Variable is Re (Re = 0.075 + 0.051 * Rm)

Tables 3 also presents the estimate for α and β coefficients for Case 1 (Proton Holdings Berhad). The accurate analysis for the acquiring company can be done using Proton Holdings Berhad as an example. The column labelled "t" is the β-coefficient, and indicates the y-intercept of the line and the column next to it named "Sig" defines the level of significance. In the case of Proton Holdings Berhad, the significance 0.000 for the value 0.060 indicates that β coefficient is significantly different from zero, and its value is 0.060. The β coefficient informs about the correlation of the 2 variables, which means the level of dependence of the security return (dependent variable) against the return of the market index (independent variable). For Proton Holding, the value 0.256 shows a positive level of dependence; when the market goes up, the Proton Holdings Berhad security generally goes up as well.

In the specific case of Case 2 (Allianz – Proton Holding Berhad), the regression line may be written as follows:

$$Re = 0.075 + 0.051 * Rm,$$

where:

- Re is the expected return on Proton Holding Berhad security at time *t;*
- Rm is the return on the market index at time *t.*

It is noted that the analysis is similar for each of the acquirer companies in the sample.

Results of CARs computations individually for each acquirer company. Table 4 presents the individual cumulative abnormal return (CAR) for each of the acquirer out of 252. CAR and the median CAR for the periods t+60, t+120, t+180, "t + 60" meaning 60 days after the public announcement date was used. As noted previously, CAR for an acquirer company at time t+60 is the aggregated abnormal returns from time t+0 to t+60 (60 days).

Regression Results

In the regression analysis, cumulative abnormal returns of merger announcements are analyzed using 5 independent variables. These independent variables are used to explain the CAR of an acquirer for the period of t+60, t+120 and t+180 days after the announcement date.

Tables 4, 5 and 6 show the T-test results for 3 post-announcement windows. Of 3 post-announcement windows, 60-day and 120-day windows, only the firm size and type of payment show significance to CAR. However, the 180-day window shows that except for GDP growth which shows no effect upon CAR, all other independent variables show significance to CAR. Table 4 shows the regression result of T+180 days using only the independent variables which are firm size, type of payment, type of merger and location. Table 4 shows the formation of the regression equation.

$$Y = -35.445 + 6.0281 X_1 + 8.268X_2 - 17.584X_3 +5.039X_4 \ldots \quad (3)$$

where Y = total cumulative abnormal return; X_1 = international or domestic mergers; X_2 = type of mergers; X_3 = method of payment; X_4 = firm size.

Coefficients (a)

Table 4. **Regression Analysis Results for T+60 days Post-Announcement Window**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	-37.205	25.393		-1.465	.144
	Firm size log	6.136	2.523	.154	2.432	.016
	Type of payment	-18.062	4.311	-.263	-4.190	.000
	Type of merger	9.281	4.803	.122	1.932	.055
	GDP growth	2.285	3.649	.038	.626	.532
	Location	6.028	4.319	.088	1.396	.164

a dependent variable is CAR

Coefficients (a)

Table 5. **Regression Analysis Results for T+120 days Post-Announcement Window**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	-34.086	21.051		-1.619	.107
	Firm size log	3.853	2.049	.122	1.880	.061
	Type of payment	-10.451	3.502	-.191	-2.984	.003
	Type of merger	5.923	3.874	.098	1.529	.128
	Location	4.003	3.528	.073	1.135	.258
	GDP growth	2.999	2.981	.063	1.006	.315

a dependent variable is CAR_120

Coefficients (a)

Table 6. **Regression Analysis Results for T+180 days Post-Announcement Window**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	-53.589	24.791		-2.162	.032
	Firm size log	5.090	2.413	.131	2.109	.036
	Type of payment	-17.584	4.124	-.261	-4.263	.000
	Type of merger	18.551	4.563	.251	4.066	.000
	Location	8.674	4.154	.129	2.088	.038
	GDP growth	2.862	3.511	.049	.815	.416

a dependent variable is CAR_180

Coefficients (a)

Table 7. **Regression Analysis Results for T+180 days Post-Announcement Window without GDP Growth**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	-35.445	10.904		-3.251	.001
	Firm size log	5.039	2.411	.129	2.090	.038
	Type of payment	-17.870	4.107	-.266	-4.352	.000
	Type of merger	18.268	4.546	.247	4.018	.000
	Location	8.571	4.150	.127	2.065	.040

a dependent variable is CAR_180

Discussions

The key success factors of a successful M&A transaction. The results show that the direction of a merger, type of payment and firm size are the key success factors and they have impact on the acquirer shareholder's wealth. The only variable that is insignificant to shareholder's return is GDP growth. GDP growth does not show any impact on the return of shareholders. However, the number of M&A activities increased as GDP growth index increased.

Cross-border or domestic M&As yield a better shareholders' wealth. The cross-border M&A activities increased 8.571 times of return to investors compared to domestic M&As. However, investment in industries or countries whose economic cycles are not highly correlated may lower the overall volatility and the risk in their earnings and cash flows. Cross-border M&As enable firms to gain access to new markets with a different stream of cash flows and leverage on its intangible assets. Shifting production or operation units overseas may reduce operating expenses with positive exposures to low labor costs, inexpensive raw materials and low levels of regulation.

What key factors determine shareholder's wealth effects in M&A? The return from a horizontal merger is 18.268 times higher when compared to vertical and conglomerate type of mergers. Horizontal merger will only be profitable when cost savings are sufficiently large by achieving economies of scale in production. This is achieved by eliminating duplication of facilities and operations, broadening a product line and by reducing investments in working capital, along with eliminating market competition through product concentration, accompanied by reducing advertising costs, increasing market segmentation and by exercising better control over a market.

The ***method of payment*** significantly influences the cumulated abnormal returns to shareholders of an acquiring organization. The method of payment reveals private information of the bidder management about the valuation of the bidder's stock. The method of payment is negatively related to the shareholder's return because capital markets in Malaysia are inefficient and do not consider the valuation signal disseminated by acquiring firms is correct considering a stock price of a target or do not believe overvaluation of the acquirer's stocks after M&A (Wong et al. 2010a,b,c) (Susela et al. 2010).

The increased firm's size attained a higher return as compared to a smaller firm. The results indicate that large firms have a better potential of realizing synergies and managerial hubris and "empire-building". Larger firms tend to command more resources and benefit from superior economies of scope and scale usually accompanied by lower financing costs.

Market conditions are of important influence for the volume of M&A activities. However, returns to shareholders are not affected by these conditions.

Suggestions for Future Research. This study was restricted to premerger strategies that increase shareholders' wealth. As such, several lines of subsequent investigation dealing with post-merger strategies remain uninvestigated. The post-merger strategy is mainly dealing with the "people" issues and aligning employees and leadership with a new culture arising from integration and implementation plans and processes.

It is also important to evaluate the post-merger effect on shareholder's wealth from different perspectives. Although the premerger key success factors play an important role in increasing shareholders' wealth, post-merger integration factors cannot be neglected. Other factors such as stakeholders' response to a transaction, top-down communications, and different management culture may also be the factors of concern affecting shareholders' wealth.

Conclusion. This study investigates the acquirer's shareholder wealth effects for domestic and international M&A processes. The research is based on 252 samples engaged in takeovers in Malaysia from 2000 to 2007. The hypotheses are developed based on cross-border or domestic M&As, the direction of merger, type of payment, firm size and GDP growth. In the study, the market model used to estimate β of each acquirer and the post-merger shareholder's return is calculated using CAR.

With regards of the first objective, cross-border M&As activities increase 8.571 times of return to the investors compared to domestic M&As. Cross-border M&A activities in Malaysia have actually increased the wealth of acquirer shareholders as these mergers are used as vehicles to bridge imperfections of various factors, products and capital markets (Gurcharan et al., 2010a,b). Probably due to stricter selection criteria applied in choosing target firms from culturally distant countries, this results in value gains for acquirers. Value creation will ensue that acquirers gain access to new markets and to a new and different stream of cash flows.

With regard to the second research objective, the direction of merger, type of payment and firm size are the determinants that increase the returns to the acquirer shareholders' wealth in M&A activities and also impact on the acquirer shareholder's wealth. This result of horizontal M&A proves to be consistent with the findings from the previous event studies that also illustrate that a significant part of potential synergies are captured by a target firm. The return attained from horizontal merger is compared to vertical and conglomerate mergers. The method of payment significantly influences as well the cumulated abnormal returns to shareholders of the acquirers. Consistent with our expectations target returns are higher through payments in cash. The wealth gains to the acquired firm shareholders on announcement of a merger are positively influenced by a firm's size. The result is consistent with the previous studies. Firm performance does increase with its size.

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