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Malaysian Acquiring Firms' Shareholders' Wealth Effect Following Cross-Border Acquisition

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ABSTRACT

Purpose: The purpose of this study is to investigate long run shareholders' wealth effect (SWE) of Malaysian acquiring firms following cross-border acquisition (CBA).

Methodology: Using buy-and-hold abnormal returns (BHAR) measure of SWE and Euclidean distance method for identifying matching firms, the study investigated 176 CBA deals of Malaysian acquiring firms for the years 2004-2015. Both parametric tests (such as conventional t-statistics, skewness adjusted t-statistics, bootstrapping skewness adjusted t-statistics and Multivariate of Analysis of Variance) and non-parametric statistical (such as Wilcoxon-Mann-Whitney test) tools were employed to analyze the data and test the hypotheses regarding the impact of CBA deals on acquiring firms' SWE.

Results: The research found that the SWE of acquiring firms is significantly positive in the shorter period while negative or mixed in the longer period. Furthermore, SWE is found to be different across several groups: (i) Shariah-complaint status firms vs. conventional firms (ii) level of control in target firm (such as major vs. minor acquisitions), (iii) Diversifying acquisition (for example, related vs unrelated acquisition). However, SWE does not differ from industry to industry.

Implications: This research presents unique empirical evidences related to long run SWE of Malaysian acquiring firms following CBA. The findings imply that CBA is more success in the longer period.

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1. Introduction

Acquiring firms face challenges posed by the new pattern of globalization, which has led to greater integration of their operations and control. Subsequently, corporate sector all over the world is

restructuring its operations through different types of consolidation strategies. Cross-border acquisitions (CBA) is one of the most popular forms of such strategy. The CBA activities are expanding due to the deregulation of different government approaches as a facilitator of the neo-liberal economic regime among firms. The role of such CBA is also encouraging for longer-term reforms, such as operational restructuring, reallocation of assets, and wealth increase in firms (Mody & Negishi, 2001).

In consonance with this, outbound foreign direct investment, in the form of CBA, has a significant role to play in the restructuring and continued development of the Malaysian economy (Rahim, Ahmad, & Ahmad, 2016). It allows capital to be reallocated more freely to its highest use in economic terms. Reducing barriers for companies to transform and adjust to changing markets can be expected to result in capital being allocated more efficiently from an economic perspective. As a result, the volume of outbound CBA has been an increasing trend among Malaysian firms since 1990 (UNCTAD, 2014).

Nonetheless, despite the popularity of growth strategies based on CBA, where it was reported that globally companies spent more than \$2 trillion on all types of acquisitions every year (Bunce, 2013), the failure rates reported by several sources are high which are in the range of 70% to 90% (Rahim, Ahmad, Ahmad, & Rahim, 2013; Bunce, 2013; Christensen, Alton, Rising & Waldeck, 2011). More specifically for Malaysian market, PwC's surveys show that 70% of the M&As fail in general (The Edge Malaysia, July 9, 2012).

It is rather puzzling that given the high reported failure rate of CBA, the strategy is still widely pursued. Could it be that the performance measure used is not accurate enough to reflect the real value of CBA and/or that CBA indeed delivers higher value in firms with specific characteristics. As the essence of CBA for acquiring firms lies in achieving the long run goal of shareholders' wealth maximization, it is crucial to assess the performance of CBA based on whether this restructuring generates value gains for shareholders of the acquirers, how these value gains have been created and achieved or failed.

The novel contribution of this study is in terms of unveiling the performance of Malaysian CBA using a robust performance measure of wealth effects, which is the Buy and Hold Abnormal Returns for one, two and three years following CBA activities and comparing the performance across different category of firms. 4 categorizations of firm were investigated, namely (1) Shariah-complaint status firms vs. conventional firms, (2) level of control in target firm (including Major vs. Minor acquisitions), (3) diversifying acquisitions, and (4) industry effect of acquiring firms. Shariah-complaint firm has an extra Shariah supervisory board compare to conventional firm. This Supervisory board is an independent body of monitoring the firm which can improve its performance. Major control in target firm can reduce agency cost which leads to maximize shareholder wealth. Diversified acquisition can also reduce risk. Therefore, these groups of firm expect to do better than conventional firms in CBA.

The success and failure of these transactions are of great significance and have enormous consequences for the companies themselves as well as for the other groups in them (Sudarsanam, 2010). Thus, examination of the SWE following CBA demands extensive research.

2. Literature Review

Prior literatures reported that studies on SWE exhibit puzzling results due to different type of samples, methods, time periods, and difference of the market contexts. Therefore, there is a need for further study on SWE. However, only a few studies were conducted on Malaysian acquiring firms' SWE and these were mostly conducted on short run SWE (Rahim et al., 2016; Rahim et al., 2013, 2014). On the other hand, to the best of author's knowledge, only the study by Khin, Lee, and Yee (2012) was conducted on long run SWE. There are a few studies on SWE of firms following domestic merger and acquisition (M&A) as

well, for example, Peng and Isa (2012), Aik, Hassan, and Mohamad (2015), Shahar, Mohd, and Ishak (2016) and Mat Rahim and Ching Pok (2013).

The only Malaysian long run SWE study of CBA by Khin *et al.* (2012) reported positive SWE using cumulative abnormal returns (CAR) considering different event windows including 60, 120 and 180 days during the period of 2004-2007. Nevertheless, the measurement of the long run SWE using CAR has some limitations for long event window. The limitations are mainly the bias, which includes new listing bias and rebalancing bias (Barber & Lyon, 1997; Basuil & Datta, 2015; Oler, Harrison, & Allen, 2008). Furthermore, their study is incomparable with most of the previous studies that used event windows of 12, 24, and 36 months after acquisition for long run SWE (Banerjee, Banerjee, De, Jindra, & Mukhopadhyay, 2014; Wang, Shih, & Lin, 2014). The period of the study was 2004-2007, which was relatively short. Consequently, the study of long run SWE of CBAs is still nascent in the Malaysian context. Therefore, it clearly shows the need for undertaking further examination of the profile of SWE of the acquiring firm following CBA in the long run from the Malaysian context.

To the best of authors' knowledge, there is hardly any evidence found considering the following aspects in the long run SWE following CBA in Malaysian context in the previous studies: (1) long run SWE of acquiring firm of post 12, 24 and 36 months, (2) percentage of firms (either gainer firms or loser firms), (3) SWE of Shariah-complaint status firms vs. conventional firms, (4) level of control in target firm (including Major vs. Minor acquisitions), (5) diversifying acquisitions, and (6) industry effect of acquiring firms.

3. Methodology

Long-horizon event study used in this research has a long history of development including the original one by Fama, Fisher, Jensen, and Roll (1969). However, in order to get the best result, the state-of-the-art method based on recent and key studies on long run event study (Barber & Lyon, 1997; Fama, 1998; Jegadeesh & Karceski, 2009; Kothari & Warner, 1997, 2004; Lyon, Barber, & Tsai, 1999; Mitchell & Stafford, 2000; Viswanathan & Wei, 2008) is followed.

The results of long run event studies are sensitive to both the methodology used and the benchmark employed (Agrawal, Jaffe, & Mandelker, 1992; Ibrahim, Uddin, Mohd, & Minai, 2013; Pontiff & Woodgate, 2008; Rau & Vermaelen, 1998). This is why, using appropriate method to calculate abnormal returns and comparing them to an appropriate benchmark are the two most important aspects of determining long run wealth effect. BHAR approach of post-event performance is used in this study employing characteristics-based benchmark using Euclidean distance method (Berry, Guillén, & Zhou, 2010; Swaminathan, Murshed, & Hulland, 2008; Van Heerde, Gijsbrechts, & Pauwels, 2008). The benchmark characteristics are firm size and firm growth. Firm size and firm growth are measured by market capitalization and book to market value respectively. Following are the steps of calculating BHAR.

Calculation of Monthly (t) Raw Return (r_{it}) for each firm (i) from Return Index.

$$r_{it} = \frac{R_{it} - R_{i(t-1)}}{R_{i(t-1)}} \quad (3.1)$$

Calculating BHAR is to calculate the holding period return of firm i for the analysis period in months (T),

$$BHR_{i,T} = \prod_{t=1}^T (1 + r_{it}) - 1 \quad (3.2)$$

Where, r_{it} is the monthly raw return of firm i in month t . Using the same calculation, the holding period return for the benchmark b is,

$$BHR_{b,T} = \prod_{t=1}^T (1 + r_{bt}) - 1 \quad (3.3)$$

Now, the buy-and-hold abnormal return for each firm i in month t after benchmark adjustment is the difference between the buy-and-hold returns of the firm and the benchmark,

$$BHAR_{it} = BHR_{it} - BHR_{bt} \quad (3.4)$$

which is used for calculating the value weighted (w_i) mean of the buy-and-hold abnormal return (BHAR) for month t as follows,

$$\overline{BHAR}_t = \sum_{i=1}^{n_t} w_i BHAR_{it} \quad (3.5)$$

The test of statistical significance is conducted using three procedures for the purpose of robustness and comparability with other studies. These are: (1) conventional t -statistic, (2) skewness adjusted t -statistic, and (3) bootstrapped skewness adjusted t -statistic, suggested by Lyon *et al.* (1999) and developed by Johnson (1978).

Moreover, using parametric tests (such as conventional t -statistics, skewness adjusted t -statistics, bootstrapping skewness adjusted t -statistics and Multivariate Analysis of Variance) and non-parametric statistical (such as Wilcoxon-Mann-Whitney test) tools were used to analyze the data and test the hypotheses regarding acquiring firms' SWE impacted by CBA deals.

Malaysian acquiring firms' CBA deals were identified from Thomson Reuters Eikon database. After that, on the basis of these deals, firm's related data were collected from DataStream database. Thereafter, total sample were 332, 284 and 176 for 12, 24 and 36 months of long run SWEs, respectively. Considering 36 months as a long run post acquisition period, final sample is 176 for 12, 24 and 36 months which make uniform across time (such as 12, 24 and 36 months). Stock return, firm size, market to book value related data are also collated from DataStream database. Shariah-compliant status firms were identified from Bursa Malaysia website. Industry classification is defined from DataStream database using Industry four group. Level of acquisition in target firm, and diversifying or unrelated industry deals were identified from Thomson Reuters Eikon database.

4. Findings and Discussion

4.1 Descriptive Analysis

Descriptive statistics of the variables are reported in Table 4.1 and 4.2. However, only the firms with available data for all variables were included in the analysis as can be seen in Table 4.1 and 4.2. The research employs cross-sectional data analysis of 176 CBA deals-firms observations for the period of 2004-2015 considering 12 months, 24 months and 36 months post acquisition wealth effect of acquiring firms.

Panel A: Equally weighted BHAR explains outcome variable (shareholder's wealth effect of acquiring firms) following 12 month, 24 months and 36 months respectively. Panel B: Value weighted BHAR is for the same. Panel C: Comparison between groups within sample for firms and across time period (such 12 months, 24 months and 36 months).

Table 4.1: Outcome variables

Variable	No of CBA deals	Mean	Std. Dev.	Min	Max
<i>Panel A: Equally weighted BHAR</i>					
BHAR12EW	176	0.0085014	0.7151507	-1.718748	5.523083
BHAR24EW	176	-0.028017	1.04188	-2.28526	8.157512
BHAR36EW	176	-0.1150517	1.266338	-5.528052	7.925235
<i>Panel B: Value weighted BHAR</i>					
BHAR12VW	176	0.000038	0.0023817	-0.0174151	0.0189255
BHAR24VW	176	0.0000184	0.0024892	-0.019994	0.0152472
BHAR36VW	176	0.0002857	0.0042072	-0.0256878	0.0270278

Note: BHAR12EW=Equally weighted Buy-and-hold abnormal returns of post-12 months, BHAR24EW= Equally weighted Buy-and-hold abnormal returns of post-24 months, BHAR36EW= Equally weighted Buy-and-hold abnormal returns of post-36 months, BHAR12VW= Value weighted Buy-and-hold abnormal returns of post-12 months, , BHAR24VW= Value weighted Buy-and-hold abnormal returns of post-24 months, BHAR36VW= Value weighted Buy-and-hold abnormal returns of post-36 months.

(i): Panel C: Group-wise sample

(i) Shariah-complaint status of acquiring firms (SCS)

Seventy-three percent (73%) deal of acquiring firm has Shariah-complaint status which is 128 out 176. So most of deals' acquiring has shariah-complaint status in the Bursa Malaysia following CBA.

Table 4.2 (i): Shariah-complaint status firms

Firm Shariah status	Freq.	Percent	Cum.
Conventional firms	48	27	27.27
Shariah-complain status firms	128	73	100
Total	176	100	

(ii) Level of acquisition (LA) in target firms

Eighty-five percent (85%) of CBA deals which control in target firms - is greater than or equal to 33%. It means Malaysian acquiring firms like to acquire major control in target firm.

Table 4.2 (ii): Level of acquisition

Level of acquisitions	Freq.	Percent	Cum.
Minor acquisition	27	15	15.34
Major acquisition	149	85	100
Total	176	100	

Note: if a CBA deal of acquiring firm acquires the target firm more than or equal to 33%, the deal is considered as major acquisition, otherwise it is minor acquisition in target firms.

(iii) Diversifying acquisition strategy (DAS)

83% of CBA deals of acquiring firms acquire the target which is not related industry with acquiring industry. It shows that acquiring firm like to buy unrelated industry of target firms.

Table 4.2 (iii): Diversifying acquisition

Diversifying acquisition	Freq.	Percent	Cum.
Related industry acquisition	30	17	17.05
Unrelated industry acquisition	146	83	100
Total	176	100	

Note: if a CBA deal of acquiring firm acquires an unrelated industry's target, it is considered as diversifying acquisitions strategy, otherwise it is related industry acquisitions.

(iv) Acquiring firm's industry

Eighty-nine percent (89%) of CBA deals of acquiring industry is industrial which is 157 out of 176. Most of firm go for CBA deal which are from industrial industry.

Table 4.2 (iv): Industry of acquiring firms

Industry of acquiring firms	Freq.	Percent	Cum.
Non-industrial industry	19	11	10.8
Industrial Industry	157	89	100
Total	176	100	

Note: if a CBA deal of acquiring firm is from industrial is Industrial industry it is considered from industrial industry acquisition, otherwise it is non-industrial industry acquisition.

4.2 Findings**4.2.1 Gainer vs loser deals**

On an average, 40% deals of acquiring firms have increased their shareholders wealth while 60% of deal of acquiring firms have decreased their shareholders' wealth after 36 months of acquisition as shown in Table 4.3 (i). So it is evident that 60% CBA deals of acquiring failed to create SWE. It can be said that failure rate exceeds success rate. The finding is similar to the previous studies by Rahim et al. (2013) and Aybar and Ficici (2009).

Table 4.3 (i): Gainer and loser deal status

Gain and loser deals	BHAR12	BHAR24	BHAR36
Loser (%)	59	59	60
Gainer (%)	41	41	40

4.2.2 Acquiring firm shareholders' wealth effect

Using equally weighted buy-and-hold abnormal returns (BHAR-EW), SWE was found significantly positive in 12 months while after 12 months, it was found significantly negative and gradually negative. So it is evident that SWE is positive in shorter period but negative in the longer period as shown in Table 4.3 (ii). On the other hand, Using value weighted buy-and-hold abnormal returns (BHAR-VW), SWE was found significantly positive following 12 months, 24 months and 36 months. It is evident that SWE is positive in the long run due to the change of method of measurement as shown in Table 4.3 (iii). Moreover, as shown in Figure 4.1 the SWE is found to show be showing an upward trend using BHAR-VW model while SWE is to be showing a downward trend using BHAR-EW model for 1-36 months. So the results of SWE is showing a mixed effect due to methods to measure it.

The results of SWE is found similar to previous studies. For example, the results of SWE is mixed due to use of different methods of measurements (such as Basuil & Datta, 2015; Khin et al., 2012). In line with this, several previous studies found that SWE is positive in the shorter period such as day or month to year (Bhagat et al., 2011; Khin et al., 2012) while others (Bertrand & Betschinger, 2012; Wang et al., 2014) found a negative one in the longer period (such as 12 months to 36 months post acquisition). Moreover, some studies report positive SWE of acquiring firms in long run (Banerjee et al., 2014; Francis et al., 2014).

Table 4.3 (ii): BHAR-EW

Post Period	Sample Size	BHAR-EW (%)	t-statistics		
			t_c^a	t_{sa}^b	t_{bsa}^c
1 to 12 Months	176	0.8501	15.77***	7.06***	9.37***
1 to 24 Months	176	-2.802	-35.67***	8.67***	8.67***
1 to 36 Months	176	-11.50	-120.53***	13.03***	9.70***

Note: BHAR-EW= Equally weighted Buy-and-hold abnormal returns

*, **, and *** indicate 10%, 5%, and 1% level of significance, respectively.

t_c^a =conventional t -statistics.

t_{sa}^b = Skewness adjusted t -statistics.

t_{bsa}^c = bootstrapped skewness adjusted t -statistics.

Table 4.3 (iii): BHAR-VW

Post Period	Sample Size	BHAR-VW (%)	t-statistics		
			t_c^a	t_{sa}^b	T_{bsa}^c
1 to 12 Months	176	0.0038	21.17***	2.45***	6.58***
1 to 24 Months	176	0.0018	9.79***	-5.53***	-27.43***
1 to 36 Months	176	0.0286	90.08***	-2.09***	5.48***

Note: BHAR-VW= Value weighted Buy-and-hold abnormal returns

*, **, and *** indicate 10%, 5%, and 1% level of significance, respectively.

t_c^a =conventional t -statistics.

t_{sa}^b = Skewness adjusted t -statistics.

t_{bsa}^c = bootstrapped skewness adjusted t -statistics.

Graph of BHAR-EW and BHAR-VW

Figure 4.1: Monthly BHAR (equally weighted and value weighted)

4.2.3 Comparison within groups and over time of SWE

Independent group t -test (for parametric and non-parametric test) is designed to compare means of same variable between two groups. Ideally, these subjects are randomly selected from a larger population of subjects. The test assumes that variances for the two populations are the same. The interpretation for p -value is the two-tailed p -value computed using the t distribution. It is the probability of observing a greater absolute value of t under the null hypothesis. If the p -value is less than the pre-specified alpha level (usually 0.05 or 0.01, here the former) it can be concluded that mean difference between group1 and group2 is statistically significantly different from zero. In the same way for Multivariate Analysis of Variance (MANOVA), the p -value associated with the F statistic of a given effect and test statistic. The null hypothesis that a given predictor has no effect on either of the outcomes is evaluated with regard to this p -value. For a given alpha level (usually 0.05 or 0.01, here the former), if the p -value is less than alpha, the null hypothesis is rejected. If not, then we fail to reject the null hypothesis.

However, the results of SWE indicate that there is no statistically significant difference between the mean SWE for Shariah vs. Conventional firms, Major vs. Minor, and Diversifying vs. similar acquisition as shown by independent group t -test (parametric test) in Table 4.4 (i) and Table 4.4 (ii). Moreover, using

non-parametric test such as Wilcoxon-Mann-Whitney test, the results this study found are the same for each group of samples. But, acquiring firm SWE differs across industry when SWE is measured by BHAR-VW. Furthermore, the results of MANOVA also indicate that SWE differs from industry to industry.

Table 4.4 (i): BHAR-EW

Factors	Difference mean	Group		Total observations	Independent group <i>t</i> -test		Wilcoxon-Mann-Whitney test		MANOVA	
		1	0		<i>t</i> -value	<i>p</i> -value	<i>z</i> -value	<i>p</i> -value	<i>f</i> -value	<i>p</i> -value
SCS	BHAR12EW	128	48	176	-0.3588	0.7202	-0.169	0.8655	0.96	0.41
	BHAR24EW	128	48	176	0.0491	0.9609	0.462	0.6443		
	BHAR36EW	128	48	176	-0.8544	0.3940	-0.688	0.4917		
LA	BHAR12EW	149	27	176	-0.6601	0.5101	-1.102	0.2704	0.44	0.72
	BHAR24EW	149	27	176	-0.0732	0.9417	-0.454	0.6501		
	BHAR36EW	149	27	176	-0.3792	0.7050	-0.946	0.3440		
DAS	BHAR12EW	146	30	176	-0.2364	0.8134	0.956	0.3391	1.09	0.35
	BHAR24EW	146	30	176	-1.2954	0.1969	-0.602	0.5472		
	BHAR36EW	146	30	176	-1.1137	0.2669	-1.141	0.2539		
AI	BHAR12EW	157	19	176	1.4101	0.1603	1.375	0.1690	1.1	0.34
	BHAR24EW	157	19	176	0.8157	0.4158	0.961	0.3367		
	BHAR36EW	157	19	176	1.2377	0.2175	0.694	0.4879		

Note:1= Shariah complaint-status (SCS) or Major acquisition (LA) or Related industry of acquisition (RI) or material industry of acquirer (Industry) or region in Asia (Region), Otherwise=0.

*, **, and *** indicate 10%, 5%, and 1% level of significance, respectively.

Table 4.4 (ii):BHAR-WV

Factors	Difference mean	Group		Total observations	Independent group <i>t</i> -test		Wilcoxon-Mann-Whitney test		MANOVA	
		1	0		<i>t</i> -value	<i>p</i> -value	<i>z</i> -value	<i>p</i> -value	<i>f</i> -value	<i>p</i> -value
SCS	BHAR12WV	128	48	176	-0.4824	0.6301	0.249	0.8033	1.29	0.28
	BHAR24WV	128	48	176	0.263	0.7929	1.581	1.581		
	BHAR36WV	128	48	176	0.9978	0.3197	0.515	0.6066		
LA	BHAR12WV	149	27	176	0.262	0.7936	-1.176	0.2395	2.03	0.11
	BHAR24WV	149	27	176	-1.7119	0.0887*	-1.250	0.2113		
	BHAR36WV	149	27	176	-0.5026	0.6159	-1.234	0.2174		
DAS	BHAR12WV	146	30	176	-0.1686	0.8663	0.531	0.5953	0.16	0.93
	BHAR24WV	146	30	176	-0.2891	0.7728	-0.508	0.6118		
	BHAR36WV	146	30	176	-0.5788	0.5635	-1.326	0.1849		
AI	BHAR12WV	157	19	176	-2.9451	0.0037***	-0.155	0.8769	5.43	0.00***
	BHAR24WV	157	19	176	-3.5896	0.0004***	-0.594	0.5528		
	BHAR36WV	157	19	176	-3.9463	0.0001***	-0.899	0.3688		

Note:1= shariah complain-status (SCS) or Major acquisition (LA) or Related industry of acquisition (RI) or material industry of acquirer (Industry) or region in Asia (Region), Otherwise=0.

*, **, and *** indicate 10%, 5%, and 1% level of significance, respectively.

5. Concluding Remarks

In this study, we made an attempt to empirically investigate long run SWE of Malaysian acquiring firms follow cross-border acquisitions. Our investigation reveals that most of the CBA deals of acquiring firm

failed to create SWE in the long run. As empirically evidenced, only 40% CBA deals create SWE. As a whole, the results of Malaysian acquiring firms' SWE is mixed and could be attributed to the difference in the methods of measurement used. It is evident that SWE is positive in the short run. In the long run, SWE is positive if we use value weighted BHAR model while it is negative if we use equally weighted BHAR model. Furthermore, acquiring firm SWEs differ across industry. In contrast, there is no difference of SWE between Shariah complaint and conventional firms, major control firm and minor control firms, diversifying firm and related acquisition firms, etc. Finally, it is concluded that increasing long run SWE can be one of the goals of an acquiring firm. We recommend that the firms from industrial industry can go for CBA with the goal of increasing long run SWE. Also, it may consider CBA deals for buying raw material, expanding the market, and setting up new business in foreign markets.

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