

UNIVERSITI TEKNOLOGI MARA

**TECHNICAL EFFICIENCY,
MERGERS AND ACQUISITIONS OF
ASEAN BASED
TELECOMMUNICATION
COMPANIES**

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Thesis submitted in fulfilment
of the requirements for the degree of
Doctor of Philosophy

Faculty of Business Management

October 2017

ABSTRACT

Multiple mergers and acquisitions (M&A) in a period of years may give rise to the accumulation of organizational inefficiencies. In light of the foregoing, this study was done by taking into account the consequences of multiple M&A activities undergone by the telecommunication companies in the Association of the Southeast Asian Nations (ASEAN) using year-by-year projections. Instead of using traditional financial ratios from accounting statements such as return on assets for measuring performance, this study intends to provide a broad view of the effects of M&A and asset utilisation on technical efficiency (TE). The study employed the Data Envelopment Analysis approach which calculated the TE, using the total asset of ASEAN based telecommunication companies, from the period of 2000 to 2011. Subsequently, regression analysis was employed to examine the factors that influenced the TE of the companies. Thus, this study was done by taking into account the consequences of M&A sequencing, M&A intensity and size of companies towards TE. In addition, the study investigated the relationship between gross domestic product (GDP) and TE. Then, this study evaluated the impact of M&A events on TE. The final investigation was done to see the impact of different income levels of the countries toward TE. The empirical findings indicated that a downward trend is registered for the TE of the companies concerned. Meanwhile, the sequence of M&A, companies' size and GDP were significantly negative in relation to TE. Further findings focusing on M&A events such as post M&A, demonstrated that coefficients of post-three year and post-four year M&A have significantly negative relationship with TE. Finally, the results of analysing the impact of high income and lower-middle-income countries have resulted significantly positive and negative relationship to TE, respectively. The limitations of this study were scarcity of data, which were mainly collected from Osiris because very limited companies have involved themselves in multiple M&A. Hence, the data of the 264 companies that appeared for over the 12 year period, were treated as 2489 decision making units (DMUs) with unbalanced data. Notwithstanding the limitations, the findings of this study provide valuable insight into the efficiency of companies which would enable the formulation of a future approach towards strategic sequence of M&A, so that higher relative efficiencies can be realized. These findings might also be helpful to the relevant authorities in coming up with useful guidelines for companies contemplating multiple M&A. The thesis ends with several recommendations that may be adopted by ASEAN countries to improve their current governing laws, such as merger control under the Competition Law, to sustain the relative efficiency of companies.

Keywords: Efficiency, size, data envelopment analysis, telecommunication, mergers & acquisitions and merger control.

ACKNOWLEDGEMENTS

Firstly, my utmost gratitude goes to Allah Almighty in guiding me through the toughest phase of completing this thesis. My endless thanks and appreciation goes to my supervisor, Prof. Dr. Wan Mansor Wan Mahmood and co-supervisor, Prof. Dr Fadzlan Sufian for their continuous support throughout the process of writing this thesis. They have guided me with encouragement and inspiration from the beginning till the end of the study duration. Their genuine comments were sincerely appreciated throughout the writing process and improvement of this thesis.

My gratitude is extended to Prof. Dr. Catherine S. F. Ho and Prof. Dr. Abdol Samad Nawi for their valuable comments as well as critiques on my proposal and my findings in this study. I am also grateful for the continuous support from Assoc. Prof. Dr. Siti Halijah Shariff, Prof. Dr. Abdul Hadi Nawawi, including all staff from Institute Graduate Studies, UiTM and Kementerian Pengajian Tinggi. In addition, my sincere thanks to all members of the PhD Power Fellowship, UiTM Terengganu, especially to Assoc. Prof. Dr. Azemi Che Hamid, Assoc. Prof. Dr. Azman Che Mat, Dr. Ahmad Suffian Ahmad Zahari, Dr. Zainuddin Zakaria, Dr. Hasiah Mohamed, and Azmi Aminuddin for their thoughts and encouragement, that have given me strength in facing the many challenges in writing this thesis. Individual acknowledgements are also owed to Assoc. Prof. Dr Norzaidi Mohd Daud, Dr. Najihah Marha Yaacob, Dr. Yunita Awang and Dr. Norliza Adnan who were supportive in giving ideas to improve this thesis.

Special recognition is extended to Ernie Melini Mohd Jamarudi, Gopala Krishnan Sekharan Nair, Elangkeeran Sabapathy, Dr. Zuriyati Ahmad, Roseziahazni A. Ghani, Hazimah Harun, Azlini Muhamad, Suraya Ahmad, and Kamil Ibrahim for their invaluable assistance throughout my doctoral programme. In addition, my appreciation goes to all staffs and lecturers of UiTM especially Prof. Madya Ismail Hassan, Nor Aliza Akmar Abd. Zahid, A'tiqah Rashidah Abu Samah, Nik Noor Afizah Azlan, Hapiza Omar and Fathiyah Ismail for generously allowing me space when I needed it. I hope Allah will reward them accordingly.

This thesis is also dedicated to my mother, Datin Sharifah Aini Syed Ibrahim and my father, Dato' Salleh Mohamed, including my siblings, Wan Anitabanun, Wan Anizabanun, Dato' Wan Muhammad Sani, Wan Anirabanun and Wan Muhammad Iskandar, for their prayers had given me the strength and tenacity to complete this thesis.

Last but not least, my love for my husband, Othman Harun and my children, Muhammad Hanif, Muhammad Hafiz, Muhammad Hilmi and Liyana Syahindah, for being patient and tolerant when needed, in every way, enabling me to complete my PhD. My heartfelt thanks to them.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Mergers and acquisitions (M&A) appear to be favoured as a mean of consolidating assets, thereby sharpening the competitive edge and saving the business from collapse. It is generally felt that M&A would lead to greater strength and reduction of business risks through asset fortification. Companies carry out M&A in order to increase input in the form of additional assets which they hope would result in improved revenue. The term 'merger' is commonly defined as a combination of two equal sized companies to form one company while 'acquisition' is the purchasing by a large company, of a smaller company. However, the intention of acquisition is not to form a new company but retain the acquirer's name and to represent control of the other. Radam, Baharom, Dayang-Affizzah, and Ismail (2009) stated that in the context of M&A, merger is defined as an affiliation of two companies into one big company, and it looks like a takeover but involves the creation of a new company name and brand.

In a technology-driven and globally competitive world, it is not uncommon for companies, such as the telecommunications companies to get involved in M&A as a means of increasing technical efficiency with the expectation of increasing output. It has been in the news and it is moving aggressively due to intense competition in the telecommunications sector. As the telecommunication sector has the highest involvement in M&A globally (Buckley, 2010), due to technical advances and market demands, the telecommunication industry has grown rapidly, and they now offer a wide variety of mobile communication services and products. Mohd Akit, Ismail, and Wan Mahmood (2012) stated that telecommunications is the world's biggest entity that comes together through complex networks, telephones entailing mobile phones and internet-linked Personal Computers which allows people to speak, share thoughts and do business anywhere, anytime they want.