

**CORPORATE TAKE-OVERS AND PERFORMANCE:  
EVIDENCE FROM THE MALAYSIAN EQUITY MARKET**

**SONG SAW IMM  
UITM KAMPUS SAMARAHAN**

**CHU EI YET  
UNIVERSITI MALAYSIA SARAWAK**

**MARCH 2006**

Report for the Intensification of Research in Priority Areas (09-02-01-0059  
EA0059), Ministry of Science, Technology, and Innovation, Malaysia.

Tarikh: 31 Mac 2006

Penolong Naib Canselor (Penyelidikan)

Institut Penyelidikan, Pembangunan dan Pengkomersilan

Universiti Teknologi MARA

40450 Shah Alam

Ybhg. Prof

**LAPORAN AKHIR PENYELIDIKAN “CORPORATE TAKE-OVERS AND  
PERFORMANCE: EVIDENCE FROM THE MALAYSIAN EQUITY  
MARKET”**

Merujuk kepada perkara di atas, bersama-sama ini disertakan 4 (empat) naskah  
Laporan Akhir Penyelidikan bertajuk “Corporate Take-Overs and Performance:  
Evidence from the Malaysian Equity Market”.

Sekian, terima kasih.

Yang benar

  
SONG SAW IMM

Ketua

Projek Penyelidikan

## Table of Contents

	Page
<i>Letter of Submission</i>	<i>i</i>
<i>Project Team Members</i>	<i>ii</i>
<i>Acknowledgement</i>	<i>iii</i>
<i>List of Tables</i>	<i>viii</i>
<i>List of Figures</i>	<i>ix</i>
<i>Abstract</i>	<i>x</i>
<b>CHAPTER ONE: BACKGROUND TO THE STUDY</b>	<b>1</b>
1.0 INTRODUCTION	1
1.1 RESEARCH OBJECTIVES	4
1.2 SIGNIFICANCE OF THE STUDY	5
1.3 ORGANISATION OF REPORT	6
<b>CHAPTER TWO: INSTITUTIONAL BACKGROUND</b>	<b>8</b>
2.0 INTRODUCTION	8
2.1 DEVELOPMENT OF THE CAPITAL MARKET AND MARKET FOR CORPORATE CONTROL	8
2.2 REGULATORY FRAMEWORK	13
2.3 SCOPE OF GOVERNANCE BY THE CODE	17
2.4 OWNERSHIP	17
2.5 INVESTORS	20
2.6 CORPORATE GROWTH	22

## **Abstract**

This study seeks to assess the take-over performance of the Malaysian public listed companies from different perspectives, using both market-based and accounting-based models. It also aims to examine managerial motives for take-overs, take-over transaction characteristics and ownership characteristics to infer any possible sources of value creation or possible agency conflicts that could have a profound impact on the post-take-over performance of the combined firms. As large capital transaction affects the vigour of capital market directly, this study focuses on large corporate take-overs, which cost more than RM20 million in Malaysia, and full acquisition (100 percent) targets.

The findings show that large corporate take-overs in Malaysia in the 1990s were driven by under-performance of bidders as compared to their matched counterparts. The main motive was to improve their earning base by acquiring profitable targets in the growth sectors.

It is found the mean cumulative abnormal returns (CAR) are significantly positive around the announcement dates of a take-over. It is consistent with the long-term post-take-over operating performance of the bidding firm reflecting that the market is rather efficient in the short-term assessment. The results shows that agency related issues namely ownership concentration and related party transaction have greater explanation for post-take-over performance than the managerial motives for efficiency and transaction characteristics. In contrast to the market model, concentrated ownership has a positive impact on accounting-based performance. This

# CHAPTER ONE: BACKGROUND TO THE STUDY

## 1.0 Introduction

Mergers and acquisitions (M&A) or take-overs<sup>1</sup> are a popular form of business investment in the 1990s. They represent massive reallocation of resources within an economy where corporate assets are channelled towards their best possible use. It is the fastest way of getting firms to grow in a short period. In Malaysia, many public listed firms are also following a similar trajectory in pursuing growth. There were about 1215 targets announced since the inception of KLSE (now Bursa Malaysia) in 1973 (Investors Digest<sup>2</sup> Jan 1973 – Jan 2000). 1990s saw the greatest number in the announcements where 781 targets were announced, more than twice the numbers of that happened in the 1970s and 1980s combined. However, by scrutinizing through the annual reports and announcement files, only about 60 percent of the targets announced were successfully taken over by the bidders.

The exponential growth of M&A in the 1990s was due to the rapid expansion of the Malaysian capital market. The total value of take-over activities (locally and abroad) was over RM50 billion in 2003 (Price Water House Coopers, 2004) as compared to an estimate of RM10 billion in the early 1990s. M&A activities are cited as catalysed by a number of factors including reasonably good GDP growth in the early 21<sup>st</sup> century, rapid globalisation of trade and services, corporate strategies

---

<sup>1</sup> Merger, acquisition or take-over means business combination of target and bidder and are used interchangeably in the literature.

<sup>2</sup> Investors Digest (Previously KLSE Gazettes) reports all important corporate announcements such as bonus issues, right issues, M&A, corporate restructuring, etc. as provided in the KLSE listing requirements. These data are compiled by scrutinising the announcements made by KLSE from the Investor Digests.