

AN EMPIRICAL ANALYSIS OF STOCK RETURNS ON THE EFFECTS OF TAKEOVERS ANNOUNCEMENT AND KEY SUCCESS FACTORS OF MERGING

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ABSTRACT

Extensive research has been conducted on the mergers and acquisitions in the United State of America (US). However, there are few studies conducted in the scene of Malaysian Corporate takeover. The purpose of this study is to examine the effects of acquisition announcement on both target and acquiring firms, which listed on the Malaysian stock market. Another objective of this study is to examine the factors that lead to success in merger integration.

The results show that there are five factors that play an important role in the merger integration process: (I) New Vision, (II) Good Leadership: (III) Growth Achievement: (IV) Cultural Integration: And (V) Effective Communication. Based on the result, a conclusion can be made, those merging companies that committed with new vision (redesign the combined entity's direction), good leadership (management do show their intuitive in facing changes), cultural integration (focus on problem arise from cultural differences), and effective communication (good communication between different levels of management) will on their road to success in merger. By the way, if a company to focus on "cost" and "efficiency" synergies may cause the success of merger to fall apart.

The researcher found small but significant positive abnormal returns and negative abnormal returns for target and acquiring firms respectively. This is consistent with the literature of acquisitions. Besides, the result on insignificant cumulative abnormal returns from day -1 to day +1 for both target and acquiring firms indicate that the Malaysian stock market is reasonably efficient in its response to acquisition announcement. The abnormal returns before the announcement indicate that insider's trading do existed in the Malaysian stock market.

The results of this study do support the Ross (1977) signaling model, where the issuance of new equity will associate with negative abnormal returns. However, the findings on this hypothesis are inconclusive as the acquiring firms with cash offers do show negative returns at post announcement period.

Furthermore, the hypothesis of large purchase consideration may signal to the market that high possibilities of the acquiring firms are going to overpay the acquisition or the acquiring firms will not benefit from the acquisition transaction.