РАЗДЕЛ 2 КОРПОРАТИВНАЯ СОБСТВЕННОСТЬ

SECTION 2 CORPORATE OWNERSHIP

FAMILY OWNERSHIP, PREMIUMS PAID AND PERFORMANCE: EVIDENCE FROM CORPORATE TAKE-OVERS IN MALAYSIA

Saw-Imm Song*, Ruhani Ali**, Subramaniam Pillay***

Abstract

This study examines the relationship between ownership identity of the largest shareholders, premiums paid and take-over performance, with reference to 63 large acquisitions by Malaysian public listed firms from 1990 to 1999. It is found that the premiums paid are much higher than those in developed countries. It has a curvilinear relationship with take-over performance. At lower to moderate levels of premiums, it improves post-take-over performance while excessive premium drags down the performance of the bidding firms. The finding shows that there is an interaction effect between family ownership and premiums paid which has contributed positively to the post-take-over performance. The evidence suggests that family ownership mitigates agency problem in corporate take-overs.

Keywords: Corporate take-overs, performance, ownership identity, take-over premiums, Malaysia.

**Universiti Teknologi MARA, songsi@tm.net.my*
***Universiti Sains Malaysia, ruhani@usm.my*
****University of Nottingham in Malaysia, Subramaniam.Pillay@notthingham.edu.my*
Corresponding Author: SONG SAW IMM songsi@tm.net.my Tel: 604-6440730/6012-4735730. *Financial support from the Ministry of Science and Technology (IRPA Project No: 09-02-01-005-EA0059) is gratefully acknowledged.*

1. Introduction

As highly concentrated ownership especially in the hand of family is a characteristic of Malaysian corporations, the role of the controlling parties to act in the best interest of minority shareholders is still debatable[1]. Most studies on take-overs in developed countries highlight agency conflict between shareholders and their managers (Morck, Shleifer and Vishny, 1988; McConnell and Servaes, 1990) where managers try to maximise their own utility. However, La Porta et al (1999) and Claessens et al (1999) contend that the primary issue for large corporations in East Asia is limiting expropriation of minority shareholders by controlling shareholders, rather than mitigating the conflicts of interests between managers and shareholders. One critical issue remains unexamined is the impact of equity ownership on firms' decision making and what are the mechanisms used to exploit the private benefits of control. Thus, this study seeks to examine investment behaviour in an environment with high concentration of control and to shed light whether take-overs are used as a mechanism to expropriate

[1] Minority shareholders in developing countries such as Malaysia have long adopted a passive role and as a result of that their rights have been often ignored. Recent corporate governance initiatives by the Malaysian Government to establish Malaysian Institute of Corporate Governance (1998), Minority Shareholder Watchdog Group Limited (2000) and mandatory training for company directors, are among others, to enhance shareholders activism.

minority shareholders or enhance its operating performance.

Very often when a bidding firm takes over a target it needs to pay a premium. This is to induce the existing shareholders to relinquish their ownership so that it can gain control of the corporation. It is not only acquiring the stock but also the right to control and change the direction of the company. However, if the controlling parties are not acting in the best interest of the minority shareholders, this would be a channel for them to expropriate private benefits from the firm such as excess compensation or overpaying take-over premiums.

The results show that the bidders' control adjusted cash flow returns on asset under-performed before the take-overs but no difference after the event as compared to the benchmark firms. Evidence of curvilinear relationship between the premiums paid and post-take-over performance are found and thus support the hypothesis that managers pays a low to moderate premiums to get required improved performance; however excessive premiums leads to a deterioration of the firms performance. It also supports the hypothesis that family ownership mitigates the agency problem in Malaysia.

This study is structured as follows: Section 2 discusses related literature and provides a conceptual framework in examining the relationship between ownership structure, premiums paid and post-take-over performance. Section 3 describes variable definition and data, and findings are highlighted in section 4. Section 5 concludes.

2.Literature

This section discusses literature on corporate ownership, bid premium, and their impact on the post-take-over performance of the bidding firms.

2.1. Ownership

Corporate take-over research has primarily focused on US companies with widely held ownership structure. Many concerns have been raised about this type of ownership structure as being too costly for the minority shareholders to exert any control on the managers. It is believed that managers, being professional and propertyless, would act in their own self-interest rather than maximising the wealth of their shareholders. Thus, the conflict of interests between managers and owners arises in corporate decision-making.

However ownership structure of East Asian firms is characterised by high concentration of ownership, especially in the hands of family members. As shown in this study, at a 20 percent cut-off point of the largest shareholders' ownership, 70 percent are owned by families, which is consistent with the findings by Claessens et al (1999). Given such a high concentration of ownership, there is rarely any hostile take-over in disciplining the controlling parties. Furthermore, the separation of management from ownership control is rare, with management of two-thirds of the firms related to the controlling owners.

Recent research by Claessens, Djankov, Fan and Lang (1999) and La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998), Lemmon and Lins (2003) and Chang (2003) point to the fact that the agency problem in East Asia is expropriation of minority shareholders by the controlling owners rather than the conflict of interest between managers and dispersed shareholders[2]. However, Morck and Young (2004) highlights that in countries with weak institutions (education system, courts, financial regulators, and organ of government), a concerted effort to improve a country's institutions is needed before diffused ownership is desirable. This is because in a weak legal protection environment for the shareholders, professional managers may be deeply unreliable and opportunistic. They may simply loot the firm, with no concern for its future or for the wealth of its shareholders. This is supported by Wiwattanakantang (2001) who argues that controlling shareholders acts as monitors who increase the value of the firm for other stakeholders. She found that managers tend to entrench at the 25-50 percent ownership but when the ownership is extremely concentrated at higher than 75 percent, the ownership variable is positively associated with Tobin's q.

In terms of the identity of the large shareholders, this study shows that Malaysian corporate ownership structure is highly concentrated in the hands of family owners, followed by ownership by state agencies[3] and others[4]. It is consistent with the survey by Classens, Djankov, Fan and Lang (1999). Semkow (1989) contends that heavy family board representation is more likely to have larger agency problem. The promotion of

[2] 39.3 percent of the controlling shareholders of the public listed companies (PLCs) in Malaysia gain effective control through pyramidal structure and 14.9 percent through cross holdings (Claessens et al, 1999). This type of ownership structure would enable the controlling owners to exercise effective control over a company despite owning relatively few of its cash flow rights. When the controlling owner have rights in excess of their proportionate ownership (control right > cash flow right), the consumption of private benefits of control is especially likely as this type of ownership structure reduces cash flow incentive alignment and increases the potential for managerial entrenchment (Claessens et al, 1999; Du and Dai, 2005).

[3] State-owned institutions are defined as institutions established under an Act of Parliament. For instance, ownership is classified as State if it is owned by a statutory body established at federal or state level, for example, Perbadanan Nasional Berhad (PNB), Employee Provident Fund (EPF), LTAT, Socso, Urban Development Authority (UDA), State Economic Development Corporations (SEDCs), etc.

[4] Mainly those in nominee accounts by financial institutions and foreigners.

family members to senior management or board position would dilute the pool of non-family talent and lead to corporate failure when family members are not capable of maintaining and enhancing the business left by the founder. This is supported by Shleifer and Vishny (1997) who argue that one of the greatest costs that large shareholders can bring about is remaining active in management even if they are no longer competent or qualified to run the firm. This has a profound negative consequence to the performance of the firm.

However, Chami (1999) argues that founding families view their firms as an asset to pass on to their descendants rather than wealth to consume during their lifetimes. As such, they are willing to invest in longer-term projects and are less likely to forego good investment to boost current earnings. Furthermore, the presence of family members may provide superior oversight on the firm's technology as their lengthy tenure permits them to move along the firm's learning curve. The sustained presence of families also suggest that suppliers or providers of capital are more likely to deal with the same governing bodies and practices for longer periods than in non-family firm and thus the firms will enjoy lower cost of debt financing compared to non-family firms (Anderson and Reeb, 2003). Thus, performance should be better for family controlled firms, and likewise the post-take-over performance. This is supported by Chu and Cheah (2006). They find that by using Tobin's q and ROA, firms with dispersed structure in Malaysia under-performed as compared to family and foreign controlled firms. They infer that family controlled firms still maintain the passion for entrepreneurship, output efficiency and expansion as well as maximisation of shareholders' value.

Other major types of investors in the Malaysian capital market are investors from state-owned investment arms, investors from financial institutions (who usually hold shares in the form of nominee accounts) and foreign investors. The state-owned institutional investors constitute 13 percent of the sample in this study, which is very close to that in the survey by Claessens et al (1999). Ownership held by other institutions in the form of nominee accounts and foreign ownership constitutes about 14 percent of the sample. Foreign ownership, like most of the domestic institutional ownership, does not play an active role in corporate governance[5]. It would be easier for them to sell their shares rather than intervene in 'problem' companies. Short and Keasey (1997) argued that the move of intervening will be perceived by the market as bad news and will cause a reduction in the value of the investment. Furthermore, effective monitoring is costly, especially for institutional investors who hold diverse portfolios. Thus, the focus of this paper will be on family ownership and its impact on take-over performance.

2.2. Bid Premium

In the US, Jarrell and Poulsen (in Jarrell et al, 1988) highlighted that the average premiums paid were 19 percent in the 1960s, 35 percent in the 1970s and 30 percent from 1980-1985. Similar results were also found in Jensen and Ruback (1983) who indicate that targets of successful tender offers and mergers earned positive returns ranging from 16 to 30 percent before 1980s. Hanouna, Sarin, and Shapiro (2001) reported that the control premium for acquiring majority position in the US is 20-30 percent higher than the premium paid for a minority position. Similar levels of premium were also paid in other "market-oriented" countries such as UK and Canada, which are higher than that of the "bank-oriented" countries, namely Japan and Germany. Slusky and Caves (1991) and Walkling and Edmister (1985) using samples from 1980s and 1970s, respectively show that the premiums paid in the US were higher at about 50 percent of their market price. Shawky, Kilb and Staas (1996) used the 1980s sample for bank acquisitions and highlighted that the average premium paid was 2.24 times more than their book value for smaller targets while the bigger targets commanded lower premiums of 1.79 times. A similar range was found in Palia (1993)'s study.

Since the majority of targets in this study come from private companies, thus a more appropriate measure for premium paid is the purchase price divided by the book value of the target.

2.2.1. Premiums and post-take-over performance

In order to induce the existing target shareholders to relinquish their ownership so that the bidder will gain control of the corporation, paying a premium above the value of the target is often required. The willingness of the bidders to pay for a premium signals that the combined firms will be worth more than the two firms operating as separate entities. Thus, the synergies generated should be big enough to compensate for the costs of combination. However, Roll (1986) and Sirower (1997) contend that the higher the premium, the greater is the value destruction from the acquisition strategy. This is because the acquirer is expected not only to meet the existing performance levels but also to meet the even higher levels of performance implied by the acquisition premium. This is not an easy task as the current market price has already been built in the expected performance in an efficient market. Unless, the motive for M&A is a carefully thought out strategy and it is driven by synergies that must be

[5] Under the Banking and Financial Institutions Act, the financial institutions are not allowed to assume any management role or take up a board position.

translated into performance gains beyond those that are already expected. This is echoed in a study by Boston Consulting Group which reported that during the pre-merger stage, eight of ten companies did not even consider how the acquired company would be integrated into operations following acquisition (Zangwill, 1995). If they are poorly considered, they can damage the underlying business. Thus we hypothesise that there is a curvilinear relationship between the premiums paid and post-take-over performance.

2.2.2. Premiums and ownership

In the theory of principal – agent relationship, managers may indulge in any non-maximizing transaction such as excessive consumption of perquisite or sub-optimal risk taking activities, such as M&A, when they do not have a significant ownership stake in the firm (Hubbard and Palia, 1995; Lewellen, Loderer and Rosenfeld, 1985). Although there are many weaknesses in family ownership structure, given the weak legal protection for the minority shareholders in developing countries such as Malaysia, firms run by families with concentrated ownership are expected to perform better than others. This is because professional managers in diffused ownership firms might act in their own self-interest rather than the shareholders'. Thus, bidders with family ownership structure are expected to pay a premium that would have a positive impact on the performance of the combined firm.

2.3. Performance

Previous studies in mergers and acquisitions have primarily focused on the impact of take-overs over a relatively short-term window, which may be several months or days before and after a take-over. Generally, it is found that the short-term performances of the bidders using event study method are negative (Dodd, 1980; Jarrell and Poulsen, 1994; Hubbard and Palia, 1995; Agrawal, Jaffe and Mandelker, 1992; Walker, 2000; Sudarsanam and Mahate, 2003). A summary of the results of US M&A by Andrade et al (2001) for the past 30 years indicates that on average targets consistently earn about 16 percent upon announcement and 24 percent till the close of the deal. In contrast, bidders earn negative returns of -0.3 to – 1 percent upon announcement and about four percent till the close of the deal.

Although the event study employing CAPM method has been widely used to estimate the abnormal returns in M&A studies, there are limitations in the model used, such as the difficulties to get 'clean data' to estimate the beta and identification of the exact time of announcement. Accounting-based studies, which measure the actual performance of the firms is thus adopted in this study.

Most accounting-based studies report no improvement in performance after M&A. For instance, Ravenscraft and Scherer (1989), Mueller (1986) and Peer (in Mueller, 1980) who examine earnings performance have concluded that merged firms have no operating improvement. A study by Denis, Denis and Sarin (1997) on corporate diversification suggests that diversification significantly reduces excess value (as measured by the percentage difference between a firm's total value and the imputed value of its benchmark).

Most of the earlier work (Ravenscraft and Scherer, 1989; Mueller, 1986; Peer, 1980) uses profitability measures such as profit before tax or profit after tax deflated by total assets to measure the accounting performance. This measure has been criticised as it is affected by managerial decisions such as on the treatment of goodwill and depreciation. A better measurement is using the cash flow returns as this method is unaffected by managerial decision and represent the real economic performance. As such the method used by Healy et al (1992) is deemed to be a superior measure compared to the traditional profitability measures and thus is adapted in this study.

3. Methodology

This section discusses variable definitions, data and sample used in the study.

3.1. Variable definitions

The variables used in this study are discussed as follows:

3.1.1. Dependent variable-ACFRPOST

The method used in Song et al (2005) is repeated here. The operating performance in any year is measured by income before taxes and extraordinary items, plus depreciation and total interest expenses. Thus, the adjusted income is unaffected by depreciation, or the type of financing used to fund the take-over. Therefore, the measure should provide an accurate indicator of efficiency changes as a result of the combination and thus is used in this study. To compare performance across firms, the operating performance is deflated by the book value of the total assets of the relevant years and average for three years for pre-take-over performance and four years for post take-over performance (CFR) for both bidders and control firms.

Control firms are used to isolate any economic disturbances in the market that could have a systematic effect on the performance of firms. The control firms were chosen by matching their principal activities based on the sub-sector

classifications as reported in the KLSE statistics (KLSE, various issues). Changes in operating performance resulting from a take-over are evaluated by comparing the post-take-over performance of the bidders with the benchmarks. The take-overs imply that the bidders were trying to be at par or outperform their counterparts in the same business or those having similar size by acquiring another company.

3.1.2. Control variables

Pre-take-over control adjusted cash flow return (Healy, 1992), method of payment (Myers and Mjluf, 1984), and new dominant shareholders created in bidders as a result of the take-over (Chang, 1998), are used as control variables as they may have an impact on take-over performance as in previous studies. The pre-take-over control adjusted cash flow return (ACFRPRE) is used to capture any correlation in cash flow returns between the pre- and post take-over years. The coefficient of ACFRPRE measures the effect of the pre- take-over performance on post- take-over returns.

Myers and Majluf (1984) contend that if the management of the bidding firm has superior inside information that its assets are undervalued, cash financed acquisition is more likely to happen. This is a positive signal sent by the bidder to the market that the bidder's existing assets are undervalued. Thus, a dummy value of 1 is assigned for take-over transaction involving cash payment, otherwise a 0 is assigned.

In a study by Chang (1998) on the returns of bidders on the acquisition of privately-held targets, he found that in stock offers, bidders experience positive abnormal returns, which is in contrast to the negative abnormal returns typically found in acquiring a publicly traded target. He contends that this is due to the creation of large blockholders in the bidding firm from the target if common shares are issued to the target shareholders. These blockholders can serve as effective monitors of managerial performance. Thus, if the take-over results in the creation of a new dominant ownership in the bidding firms, a dummy value of 1 is assigned to the variable otherwise a zero is assigned.

3.1.3. Ownership and classification

In order to examine the impact of controlling shareholders on post-take-over performance, only the largest shareholders (including deemed interests) are identified. The identities of the largest shareholders are classified into family-owned, state-owned and others (foreign and nominee accounts) by using 20 percent as the cut-off point. For instance, if the biggest shareholder of the firm is from a family or an individual and hold more than 20 percent of the shares in the corporation, the firm is deemed as family owned.

3.1.4. Premiums

There are a few methods in computing premiums. Most studies in the developed countries such as US use the abnormal returns at the take-over announcement. Alternatively, the measure is the difference between the offer price and the target firm's stock market price before the take-over announcement. (Walkling and Edmister, 1985; Slusky and Caves, 1991; Sung, 1993). Walkling and Edmister use the target's market price 14 days prior to offer announcement date while Slusky and Caves and Sung measure the target's market price one month and sixty days, respectively before the first take-over announcement. This is the most common method used in the US as targets' share prices are readily available. The premiums or abnormal returns reflect the cash flow benefits that shareholders expect to receive under the new management (Barclay and Holderness, 1989). If the shares are traded privately on negotiated transfers of controlling blocks, Barclay and Holderness (1989) and Dyck and Zingales (2004) measure the premiums paid as the difference between the purchase price and the post-announcement price. The premiums paid reflect the private benefits of control accruing to the controlling shareholders. If a company has multiple classes of stocks traded with differential voting rights, then the difference in the market value of a vote represents the premiums and private benefits of control.

Alternatively, premiums paid can be computed as the ratio of the purchased price to the book value of the target (Palia, 1993; Shawky, Kilb and Staas, 1996). This is especially popular for non-public listed firms when market prices of the targets are usually not readily available. The computation of premiums paid in this study follows this measure as most of targets in the sample involved non-public listed firms. This ratio gives an indication of how many times more the bidder is willing to pay for the target firm than its book value.

In order to reduce the problem of multicollineariy, the premium variable is then centred as suggested by Cohen et al (2003), Jaccard et al (1990) and Frazier et al (2004). It also enable ease of interpretation of the explanatory variables as zero premiums do not have meaningful interpretation because there is non zero purchase price nor zero book value in our sample. Thus, the coefficient represents, e.g. the regression of dependent variables (ACFRPOST) on independent variable (e.g FOWN) at the mean premiums (MPREM) in the sample. In order to test the curvilinear relationship, the premiums variables (which has been centred) is squared to reflect the quadratic function of the equation. In order to assess the interaction effect of

premiums paid and performance, the product terms of premium variables (MPREM and MPREMSQ) and family ownership variables are created by multiplying the variables (MPREM*FOWN, MPREMSQ*FOWN). Table 1 summarises the variables used

3.2. Data

To identify the bidders and targets, a procedure similar to that of Song et al (2005)[6] is used here. Initial M&A announcement list was identified from the Investors Digest published by KLSE (various issues). The actual combinations of the firms were confirmed by checking through the Companies Announcement Files[7], Annual Reports and the KLSE Annual Companies Handbook. The pre- and post-takeover performance data was collected for three years prior to and four years after the takeover. Only successful takeovers were used in the analysis. The ownership data was obtained one year prior to M&A and the new block created was examined after the takeover year. If the dominant owner was a company, the owner of the dominant ownership was traced further in order to get the ultimate owner from the records kept by the Companies Commission of Malaysia (CCM, formally Registrar of Companies).

As the majority of the targets were from non-listed companies, which were relatively smaller and closely held, only those with more than 51 percent acquisition stakes were included. This is to ensure that the takeover will result in a change in control of the targets. The selected target should have a purchase price of not less than RM5 million as too small a target will not have any significant impact on the bidders (Seth, 1990). Minority buyout or situations where the controlling parties purchase the remaining shares of the firms from the minority shareholders were excluded, as the impact of these kinds of acquisition would not be as apparent. For the public listed firms that were relatively larger, only those with more than 20 percent acquisition stakes were considered, as this is sufficient to effect a change in control (Loh, 1996). Other exclusion criteria for the sample included those targets which did not have the profit and loss account or balance sheet before the announcements. This was typically found in those newly incorporated companies, dormant companies, foreign targets, and targets that hold concession or licenses for operation[8]. The control companies should not experience any major M&A activities during the period of study in order to provide a performance benchmark to the effects of M&A. It was found that only about 60 percent (466/781) of the targets announced were successfully taken over by the bidders. Table 2 shows the selection criteria for the targets included in this study. 136 targets were available for analysis. However, the final sample consists of only 63 bidding companies, as multiple targets by a single bidder were treated as one observation. It only includes the latest acquisition during the period or if the second acquisition had an interval of four years. In the event that bidders announced a few targets in a single announcement, the biggest target was selected as the matched sample for the bidders. It also excluded banks, other financial institutions and utility companies in order to improve comparability of balance sheet and income data.

Table 3 shows the distribution of types of ownership by family, state, nominee and foreign. Family ownership constitutes about 73 percent of the distribution while state ownership makes up about 13 percent, followed by nominee and foreign ownership of 14 percent. The distribution is consistent with the corporate ownership surveyed by Claessen et al (1999). Concentrated ownership, where the largest shareholders hold more than 20 percent of the corporation's share, constitutes about 82 percent of the sample while dispersed ownership only constitutes about 18 percent of the sample. It is also found that new blocks of ownership (16 percent) emerge in the bidding firms after the take-over, indicating that there were reverse take-overs.

Generally, the majority of the targets come from the trading and services and property sectors. The premiums paid are much higher than those in the developed countries as shown in Table 4. It is found that 50 percent of the bidders paid more than 3.48 times the book value of targets. On average, the consumer sector, property sector and trading and services paid the highest premiums. The mean is very much higher than the average paid in the US (Shawky, Kilb and Staas, 1996, 2.24x; Slusky and Caves, 1991, 1.5x; Walkling and Edmister, 1985, 1.5x; Hanouna, Sarin, and Shapiro, 2001, 1.3x). The centered value for premiums paid ranged from –7.4 to 74[9].

Table 5 shows the descriptive statistics used in the analysis. ACFRPOST and ACFRPRE show negative median value implying that half of the bidders under-performed as compared to their counter-part in the same industry. Consistent with Song et al (2005), Table 6 shows that the bidders were under-performing the benchmark but there was no difference after the take-over.

[6] The sample in this study involves those targets with RM5 million and above. To improve the accuracy of the calculated premiums, target firms with negative book values are excluded.

[7] It contains documents related to companies' announcements such as Circular to Shareholders in relation to take-overs, etc.

[8] For instance, acquisition of Sampling Plywood (Baramas) Sdn Bhd which held timber concession by Glenealy Bhd were valued based on the estimated cash flow of the concession and thus financial statement were not applicable

[9] Premiums with negative book value computed (14 cases) were excluded from the study.

Table 1. Variables Used

Variable		Definition of measurement	Proxy for
Symbol	Name		
Performance			
ACFRPOST	Control-adjusted cash flow returns after take-over	The difference between the $CFR_{i, post}$ and $CFR_{ci, post}$	Performance
Bidder's Ownership			
FOWN	Family ownership	Dominant shareholder (holds more than 20% of the corporation's shares) is family	Managerial entrenchment/ Alignment
Premium			
PREMIUM	Premiums paid	Purchase price/ Book value of targets.	Potential hubris and expropriation.
MPREM MPREMSQ	Premiums paid Premiums paid	Centred PREMIUM MPREM square	
MPREM*FOWN	Product of MPREM and family ownership	The interaction effect of premiums and family ownership	Managerial entrenchment/ Alignment
MPREMSQ*FOWN	Product of MPREMSQ and family ownership	The interaction effect of premiums square and family ownership	
Control Variables			
ACFRPRE	Control-adjusted cash flow returns before take-over	The difference between the $CFR_{i,pre}$ and $CFR_{c,i,pre,}$	Pre-take-over Performance
MPAY	Method of payment	Dummy = 1 for payment involving cash, 0 otherwise.	Asymmetry of information and signalling.
NEWBLOC	New dominant block created	If the take-over resulted in the creation of a large new block in the bidding firm	

Table 2. Sample Selection Criteria

	1990s
Announcement	781
Confirmed M&A *Lapsed*	466 315
Targets from non-public listed companies	376
Targets from public firms	62
Targets from foreign firms	28
Purchase price more than RM 5 million Purchase price less than RM 5 million Incomplete information	314 80 72
Purchase stake more than 20% for PCs	58
Purchase stake more than 50% for non-PCs Others and foreign companies	321 87
Purchase stakes of more than 20% for PLCs and purchase price more than RM5 million	44
Purchase stakes of more than 50% and purchase price more than RM5m	226
Total Minus Incomplete information/with major confounding events	270 110
Total available targets in sample Bidders with multiple targets Cases with negative book value/extreme values/Finance companies	160 55 42
Total available bidders for accounting-based performance analysis	63

Table 3. Category of Ownership

	Frequency	Percent
Panel 1:Type of ownership		
Family	46	73.0
State	8	12.7
Nominee/Foreign	9	14.3
Total	63	100.0
Panel 2: Ownership concentration		
Dispersed	11	17.5
Total	63	100
Panel 3: New dominant block of ownership created		
Yes	10	15.9
Total	63	100

Table 4. Distribution of Bidders' and Targets' Sectors and Premiums Paid

	Bidders' sector		Targets' sector		Premiums paid	
	Frequency	Percent	Frequency	Percent	Mean	Median
Trading and Services	14	22.22	23	36.51	9.10	3.89
Properties	14	22.22	23	36.51	10.84	4.03
Industrial Products	16	25.40	9	14.29	2.43	2.61
Plantation	7	11.11	4	6.35	1.45	1.31
Construction	5	7.94	2	3.17	2.16	2.16
Consumer Products	6	9.52	1	1.59	15.45	15.45
Mining	1	1.59	1	1.59	1.10	1.10
	63	100	63	100	8.05	3.48

Table 5. Descriptive Statistics

	N	Mean	Median	Std. Deviation	Skewness	Minimum	Maximum
	Valid						
ACFRPOST	63	-0.0001	-0.0065	0.1147	0.1089	-0.2662	0.2806
ACFRPRE	63	-0.0200	-0.0021	0.0884	-2.2043	-0.4714	0.1442
MPAY	63	0.2540	0	0.4388	1.1582	0	1
NEWBLOC	63	0.1587	0	0.3684	1.9137	0	1
MPREMIUM	63	0.1784	-4.3874	12.6999	3.7861	-7.4742	74.6609
MPREMSQ	63	158.7585	34.0475	708.4600	7.4694	0.1057	5574.2573
FOWN	63	0.7302	1	0.4474	-1.0625	0	1
FOWN*MPREM	63	0.6913	-1.4705	12.0884	4.2067	-7.4742	74.6609
FOWN*MPREMS	63	144.2869	23.4351	709.7991	7.4886	0.0000	5574.2573

Table 6. One-sample t-test for ACFRPRE and ACFRPOST

Test Value = 0				
	t	df	Sig. (2-tailed)	Mean Difference
ACFRPRE	-1.7920	62	0.0780	-0.0200
ACFRPOST	-0.0088	62	0.9930	-0.0001

Table 7. Family ownership, premiums and post-take-over performance

	Model 1		Model 2		Model 3		Model 4	
CONSTANT	-0.0087		-0.0034		0.0300		0.1074	**
ACFRPRE	0.2723	*	0.2842	*	0.3285	*	0.3859	**
MPAY	0.0144		0.0075		-0.0002		0.0096	
NEWBLOC	0.0654	*	0.05896	*	0.0604	*	0.0647	*
MPREM			0.0044	**	0.0046	**	0.0139	**
MPREMSQ			-0.0001	*	-0.0001	*	-0.0012	**
FOWN					-0.0330		-0.1128	**
MPREM*FOWN							-0.0093	
MPREMSQ*FOWN							0.0011	**
N	63		63		63		63	
R square	0.096		0.165		0.179		0.238	
Adj R square	0.050		0.092		0.091		0.126	
F-statistics	2.079		2.252		2.036		2.114	
Sig. F-change	0.113		0.103		0.330		0.132	

* Significantly different from zero at the 10 percent level, using a two-tailed test.
** Significantly different from zero at the 5 percent level, using a two-tailed test.

4. Findings

The hypotheses are tested using a four-step hierarchical regression analysis (Cohen at al, 2003). A check on the assumptions indicates that the error terms are normally distributed, it has constant variances and it does not violate the no multicollinearity assumptions[10].

Table 7 shows the determinants post-take-over performance of the bidding as compared to their benchmark firms. The control variables namely ACFRPRE, MPAY and NEWBLOC explain about 10 percent of the variation in ACFRPOST. The post-take-over performance is affected by the pre-take-over performance; however it is only marginally significant at 10 percent level. This goes against the prediction that the post-take-over performance is unaffected by the pre-take-over performance as in Healy at al (1992). The method of payment is not significant at the conventional level. However, if the method of payment resulted in the creation of new block of equity holders in the bidding firms by way of equity financing, it has a positive impact on ACFRPOST. This is consistence with Chang (1998) and Shleifer and Vishny (1986) findings that blockholders can serve as an effective monitor of managerial performance. The willingness of target shareholders to take large positions in a firm also conveys favourable information about the firm.

Model 2 shows that there is a curvilinear relationship between ACFRPOST and the premiums paid. The second derivation of the equation, $\frac{d^2y}{dx^2}$ shows a negative value indicating that there is an inverted U relationship between the dependent variable and the independent variables. This shows that excessive premiums paid have a negative impact on the performance of the bidding firms.

This supports the argument by Roll (1986) that many M&As fail because the bidders paid too much. Apart from the hubris explanation, it could also possibly be due to tunnelling effect by controlling parties as shareholders activism is relatively weak in developing countries like Malaysia. To investigate the effect of ownership identities on subsequent operating performance, Model 3 includes variable FOWN. The result indicates that this variable does not affect the performance of the bidding firm individually. However, when we interact the MPREMSQ and FOWN (Model 4), the explanatory power improves by 6 percent to 23.8 percent. The coefficient of this interaction variable is positive and significant. This suggests that family ownership mitigates the negative effect of premiums paid on performance. The ownership by family has a positive influence as to the level of premiums paid and thus the post-take-over performance of bidding firms. This goes against Semkow's (1989) assertion that heavy family board representation is more likely to have larger agency problem. On the contrary, it supports Chami's (1999) argument that founding families are willing to invest in longer-term projects and are less likely to forego good investment to boost current earnings. This is consistent with Anderson and Reeb (2003) that the presence of family members may provide superior oversight on the firm's technology as their lengthy tenure permits them to move along the firm's learning curve. Chu and Cheah (2006) also find that firms with dispersed structure in Malaysia under-performed as compared to family firm. They infer that family controlled firms still maintain the passion for entrepreneurship, output efficiency and expansion as well as maximisation of shareholders' value.

5. Concluding Remarks

This study attempts to find out the relationship between the ownership identity and the premiums paid by the bidding firms and its post-take-over performance, with reference to 63 acquisitions by the public listed firms in Malaysia. The results shows that the bidders' control adjusted cash flow returns on asset under-performed before the take-over but improved or are at par with the benchmark after the event. By year 2005, there are more than 1000 firms (a relatively large number as compared to other countries in the region) listed in the KLSE; however, many smaller firms are actually not actively traded. This study suggests that it would be beneficial if these smaller public listed firms be merged if they can find a right fit. This will improve the attractiveness of the Malaysian capital market in the long term.

This study also finds evidence of curvilinear relationship between the premiums paid and post-take-over performance. This supports Roll's (1986) argument that excessive premiums paid cause M&As to fail. The interaction effect between family ownership and premiums paid shows that firms run by families have investment decisions that are more carefully thought out. This has resulted in firms paying a premium that justifys for the positive performance of the combined firm. The findings do not support the view that family ownership lead to the expropriation of minority shareholders as highlighted by La-Porta et al (1999) and Claessens et al (1999). The positive impact of dominant ownership created as a result of the take-over supports Chang (1998), Shleifer and Vishny (1986) and Jensen and Meckling (1976) argument that block ownership would be beneficial to corporations as it allows for greater monitoring of managers.

[10] Although there is a correlation between MPREMSQ and MPREM, since MPREMSQ is a non-linear function of MPREM, it does not violate the no multicollinearity assumption (Gujarati, p.218,1995)

References

1. Agrawal, A., Jaffe, G. F. & Mandelker, G. N. (1992). The post merger performance of acquiring firms: A reexamination of an anomaly. Journal of Finance, XLVII(4), 1605-1621.
2. Anderson, R. C. & Reeb, D. M. (2003). Founding family ownership and firm performance: evidence from the S&P 500. Journal of Finance, Forthcoming.
3. Andrade, G., Mitchell, M. & Stafford, E. (2001). New evidence and perspective on mergers. Journal of Economic Perspectives, 15(2), 103-120.
4. Barclay, M. J. & Holderness, C. G. (1989). Private benefits from control of public corporations. Journal of Financial Economics, 25, 371-393.
5. Chami, R. (1999). What's different about family business?. Working paper, University if Notre Dame and the International Monetary Fund.
6. Chang, S. (1998). Take-overs of privately held targets, methods of payment and bidder returns. Journal of Finance, 53(2), 773-784.
7. Chang, S. J. (2003). Ownerhip structure, expropriation, and perfomance of gruop-affiliated companies in Korea. Academy of Manngement Journal, 46(2), 238-253.
8. Chu, E. Y. & Cheah, K. G. (2006). Does ownership structure matter? Evidence from the Malaysian Equity market. Corporate Ownerhsip and Control, 4(2).
9. Claessens, S., Djankov, S., Fan, J. & Lang, L. (1999). Expropriation of minority shareholders in East Asia. World Bank Working Paper.
10. Cohen, J., Cohen, P., West, S. G., & Aiken, L. S. (2003). Applied multiple regression/Correlation Analysis for the behavioral sciences (3rd). Mahwah, NJ: Erlbaum.
11. Denis, D. J., Denis, D. K. & Sarin, A. (1997). Agency problems, equity ownership and corporate diversification. Journal of Finance, LII(1), 135-160.
12. Dodd, P. (1980). Merger proposals, management discretion and stockholder wealth. Journal of financial Economics, 8, 105-138.
13. Du, J. & Dai, Y. (2005). Ultimate corporate ownership structure and capital structures: Evidence from East Asian economies. Corporate Governance, 13(1), 60-71.
14. Dun & Bradstreets (1997). Key Business Directory of Malaysia. Singapore: Dun and Bradstreets.
15. Dyck A. and Zingales L. (2004). Private benefits of control: an international comparison. Journal of Finance 59, 537-600.
16. Frazier, p. A., Barron, K. E. & Tix, A. P. (2004). Testing moderator and mediator effects in counseling psychology. Journal of Counseling Psychology, 51(1), 115-134.
17. Gujarati, D. N. (1995). Basic Econometrics. Singapore: McGraw-Hill.
18. Hanouna, P., Sarin, A. & Shapiro, a. C. (2001). Value of corporate control: Some international evidence. USC Marshall School of Business, Working Paper No. 01-4.
19. Healy P. M., Palepu K. G. and Ruback R. S. (1992). Does corporate performance improve after mergers. Journal of Financial Economics 31, 135-175.
20. Hubbard, R. G. & Palia, D. (1995). Benefits of control, managerial ownership, and the stock returns of acquiring firms. RAND Journal of Economics, 26(4), 782-792.
21. Jaccard, J., Turrisi, R., & Wan, C. K. (1990). Interaction effects in multiple regression. Newbury Park, CA: Sage.
22. Jarrell G. A. and Poulsen A. B. (1994). The returns to acquiring firms in tender offers: Evidence from three decades. In Reading in Mergers and Acquisition (Gaughan P. G., Ed.), pp. 284-295.
23. Jarrell, G. A., Brickley, J. A. & Netter, J. M. (1988). The market for control: The empirical evidence since 1980. Journal of Economic Perspectives, 2(1), 49-68.
24. Jensen, M. C. & Ruback, R. S. (1983). The market for corporate control: The scientific evidence. Journal of Financial Economics, 11.
25. KLSE (Various issues). KLSE Statistics. Kuala Lumpur: Kuala Lumpur Stock Exchange.
26. KLSE. (Various issues) Records of bonus & scrip issues, capital changes, calls, etc. Investors Digest. Kuala Lumpur: KLSE.
27. KLSE. (Various issues). Annual Companies Handbook. Kuala Lumpur: Kuala Lumpur Stock Exchange.
28. KLSE. (Various issues). Investors Digest. Kuala Lumpur: Kuala Lumpur Stock Exchange.
29. La-Porta, R., Lopez-De-Silanes, F. & Shleifer, A. (1999). Corporate ownership around the world. Journal of Finance, LIV(2), 471-517.
30. La-Porta, R., Lopez-de-Silanes, l., Shleifer, Shleifer, A. & Vishny, R. W. (1998). Agency problems and dividend policies around the world. NBER Working Paper 6594.
31. Lemmon, M. L., & Lins, K. V. (2003). Ownership structure, corporate governance and firm value: Evidence from the East Asian financial crisis. Journal of Finance, Forthcming.
32. Lewellen, W. G., Loderer, C. & Rosenfeld, A. (1985). Merger decision and executive stock ownership in acquiring firms. Journal of Accounting and Economics, 7, 209-231.
33. Loh, S. C. (1996). Corporate powers: controls, remedies and decision making. Kuala Lumpur: Malayan Law Journal Sdn Bhd.
34. McConnell, J. J. & Servaes, H. (1990). Additional evidence on equity ownership and corporate value. Journal of Financial Economics, 27(2), 595-612.
35. Morck, R. & Yeung, B. (2004). Corporate Governance and family control. World Bank Policy Research Working Paper: Special issues related to corporate goverannce and family control(3406).
36. Morck, R., Shelifer, A. & Vishny, R. (1988). Management ownership and corporate performance: An empirical analysis. Journal of Financial Economics, 20, 293-315.

37. Mueller D. C. (1986). Profits in the long run Cambridge University Press, Cambridge.
38. Mueller, D. C. (Ed.). (1980). The determinnats and effects of mergers: In international comparison. Cambridge, Mass.: Oelgeschlager.
39. Myers, S. C. & Majluf, n. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. Journal of Financial Economics, 13, 187-221.
40. Palia, D. (1993). The managerial, regulatory, and financial determinants of bank merger premiums. Journal of Industrial Economics, XLI(1), 91-101.
41. Ravenscraft, D. J. & Scherer, F. M. (1989). The profitability of mergers. International Journal of Industrial Organization, 7, 101-116.
42. Roll, R. (1986). The Hubris hypothesis of corporate take-overs. Journal of Business, 59(2), 197-216.
43. Securities Commission of Malaysia. (Various issues). Annual Report. Kuala Lumpur: Securities Commission.
44. Semkow, B. W. (1989). Chinese corporate governance and finance in Taiwan. Journal of International Banking and Finance Law., December, 528-540.
45. Seth A. (1990). Value creation in acquisitios: A re-examination of performance issues. Strategic Management Journal 11, 99-115.
46. Shawky, H. A., Kilb, T. & Staas, C. F. (1996). Determinants of Bank merger Premiums. Journal of Economics and Finance, 20(1), 117-131.
47. Shleifer, A. & Vishny, R. W. (1997). A survey of corporate governance. Journal of Finance, LII(2), 737-783.
48. Short H. and Keasey K. (1997). Institutional shareholders and corporate governance in the United Kingdom. In Corporate Governance: Economic and Financial Issues (Keasey K., Thompson S. et al., Ed.), pp. 18-53. Oxford University Press, New York.
49. Sirower, M. (1997). The synergy trap. New York: The Free Press.
50. Slusky, A. R. & Caves, R. E. (1991). Synergy, agency, and the determinants of premia paid in mergers. The Journal of Industrial Economics, XXXIX(March), 277-296.
51. Song, S. I., Ali, R. & Pillay, S. (2005). Ownership structure, motives and corporate takeover performance of Malaysian public listed firms. Capital Market Review (Forthcoming).
52. Sudarsanam, S. & Mahate, A. A. (2003). Glamour acquirers, method of payment and post-acquisition performance: The UK evidence. Journal of Business Finance and Accounting, 30(1), 299-350.
53. Sung H. M. (1993). The effects of overpayment and form of financing on bidder returns in mergers and tender offers. The Journal of Financial Research XVI, 351-365.
54. Switzer, J. A. (1996). Evidence on real gains in corporate acquisition. Journal of Economics and Business, 48, 443-460.
55. Walker, M. M. (2000). Corporate take-overs, strategic objectives, and acquiring-firm shareholder wealth. Financial Management(Spring), 53-66.
56. Walkling, R. A. & Edmister, R. O. (1985). Determinants of Tender Offer Premiums. Financial Anaysts Journal, Jan/Feb, 27-37.
57. Wiwattanakantang Y. (2001). Controlling shareholders and corporate value: Evidence from Thailand. Pacific-Basin Finance Journal 9, 323-362.
58. Zangwill, W. I. (1995). Models for successful mergers. Wall Street Journal., A19.