EFFECTS OF THE LARGEST SHAREHOLDER STAKES ON THE PERFORMANCE OF THE MALAYSIAN ACQUIRING FIRMS

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

Abstract

This paper examines the relationship between the ownership stakes of the largest shareholders and the post-take-over operating performance and firm values of the acquiring firms. It was found that the operating performance as measured by the control-adjusted cash flow returns rose as the largest ownership stakes increased. However, when the dominant owners obtained a very high level of ownership stakes, the operating performance deteriorated. This shows that at lower level of ownership stakes, ownership concentration aligns the interests between controlling owners and shareholders. In contrast, when the dominant owner had absolute control over the firm, there was a potential of expropriation of minority shareholders by the controlling owners. Nevertheless, we did not find significant relation in the market-based assessment.

Keywords: Corporate take-overs, operating performance, firm value, ownership, Malaysia

**Universiti Teknologi MARA*
songsi@tm.net.my
***Universiti Sains Malaysia*
ruhani@usm.my
****University of Nottingham in Malaysia*
Subramaniam.Pillay@nottingham.edu.my

1. Introduction

In the 1990s, the economy of Malaysia enjoyed a spectacular average growth of about eight percent per year before the crisis (Malaysia, 1999). Take-over activities were actively transacted by corporations to expand their business in order to tap the opportunities posted in the fast growing market. Despite the popularity of take-over move, evidence from earlier studies on mergers and acquisitions (M&A) shows that shareholders of acquiring firms either lose or were no better off upon the announcement of M&A. In the longer term, they lost even more. (Agrawal, Jaffe & Mandelker, 1992). Inconclusive findings on the post-take-over performance of the acquirers, however, were found in accounting-based studies (Healy, Palepu & Ruback, 1992; Powell & Stark, 2005).

Recent literature widely supports that ownership structure of a corporation has important implications for managerial decision making and performance. Most studies on take-overs in the US highlighted agency conflicts between shareholders and their managers whereby managers, being propertyless, tried to maximise their own utilities rather than the shareholders' (McConnell & Servaes, 1990; Morck, Shleifer, & Vishny, 1988). In contrast to the diffused ownership structure typically found in the US, highly concentrated ownership especially in the hands of families has been a characteristic of many East Asian Corporations. The concentration of ownership, as highlighted by Jensen and Meckling (1976), would be beneficial to corporations as it allows for greater monitoring of managers. It also reduces transaction costs in negotiating and enforcing corporate contracts with various stakeholders. This was supported by Morck et al (1988) who noted that the absence of separation between ownership and control reduces conflicts of interest and this increases shareholder value.

However, the role of the controlling parties (who held the largest stake of shares in corporations) to act in the best interest of minority shareholders is still debatable. Minority shareholders in developing countries such as Malaysia have long adopted a passive role and as a result of that their rights have often been ignored. La Porta, Lopez-De-Silanes, and Shleifer (1999) and Claessens, Djankov, and Xu (2000) contended that the agency problem in Asian countries was not the conflict of interest between owners and managers, but between the majority and minority shareholders. Many studies have highlighted that the entrenched managers or the controlling shareholders in firms with high concentration of ownership tended to engage in non-value-maximizing activities for private gains (Claessens, Djankov, Fan, & Lang, 1999; Lemmon & Lins, 2003). The incidences of related-party transactions, questionable decision making, asset shifting, as well as conflicts-of-interest transactions without proper disclosure by directors were areas identified by the Securities Commission (SC) that caused the vulnerabilities of listed companies in the 1997/98 crisis (Securities Commision, 2004, p.171).

Thus, this study seeks to examine the effect of the largest ownership stakes on the performance of the public listed acquiring firms which have acquired either the public listed or non public listed firms in Malaysia. Using the accounting-based performance measurement, it is found that the largest ownership stakes contributed positively to post-take-over performance. However, the positive contribution by large shareholdings disappears after concentration exceeded de jure control of 53 percent. The market-based assessment, measured by control-adjusted Tobin's q was unable to explain the excess firm value as a result of the take-over.

This study is structured as follows: Sections 2 discusses related literature and hypotheses development. Section 3 describes methodology and data used, after which the findings are highlighted in Section 4. Section 5 concludes.

Literature

Ownership and Performance

Corporate takeover research has primarily focused on US and UK companies with widely held ownership structure. However, in Europe, East Asia and elsewhere, corporate ownership was characterised as having high concentration of ownership (Claessens et al, 1999) especially in the hands of families. Almeida and Wolfenzon (2003) and Khanna and Palepu (2000) highlighted that this type of ownership pattern generally was found in poorly developed factor market, and in countries with poor investor protection (La Porta et al, 1999). When the product, labour, and capital markets were underdeveloped and inefficient, it would be more costly for firms to acquire them (Williamson, 1985). With concentrated ownership it would reduce transaction costs in negotiating and enforcing corporate contracts with various stakeholders (Morck et al, 1988). Jensen and Meckling (1976) also conceded that concentration of ownership would be beneficial to corporations as large shareholding allows for greater monitoring of managers. In addition, in the absence of separation between ownership and control, it reduces conflicts of interests between shareholders and managers and this increases shareholder value (Morck et al, 1988).

However, Barclay and Holderness (1989) found that larger ownership reduced the probability of acquiring by other agents, thereby reducing the value of the firm. Some studies found that the relationship between ownership concentration and firm value was non-monotonic. For instance, Morck et al (1988) found that the values of the firm, measured by Tobin's q, increased from 0 to 5 percent, deteriorated at the range of 5 to 25 percent, but improved after the threshold of 25 percent. McConnell and Servaes (1990) on the other hand found that the values of the firms, also measured by Tobin's q increased at the lower level of ownership concentration but were adversely affected at high levels (about 40 percent) of managerial ownership. The increased of firm value at the lower level of ownership concentration was inferred as convergence of interests between managers and shareholders while the decreased values at the higher ownership level were due to entrenchment effects. The entrenchment effect took place as managers may free from the discipline by their shareholders as managers might exploit their control rights such as involve in take-overs that do not benefits the minority shareholders but benefit themselves such as empire building, additional perquisite consumptions, etc. Thus, the value of firm increases and then decreases with the increase in the managerial ownership stakes.

In contrast to McConell and Servaes (1990), Wiwattanakantang (2001) argued that controlling shareholders act as monitors who increase the value of the firm for other stakeholders. She found that managers tended to entrench at the 25-50 percent ownership but when the ownership was extremely concentrated at higher than 75 percent, the ownership variable was positively associated with Tobin's q. She contended that when managers gained sufficient control over the firm, they might utilise their power to divert corporate resources to their own interests. When ownership is extremely high or more than 75 percent, the non-value-maximization activities is eventually borne by the large shareholders themselves according to the proportion of their stakes in the firm.

Given the inconclusive findings of the previous studies with regard to high concentration of share ownership, this study aims to contribute to the literature in the area of corporate take-over on the effect of ownership concentration on the performance of the acquiring firms and their firm value, especially in developing country such as Malaysia. Given the institutional background that most corporations were controlled by families, and the long-term survival of the family business was of utmost concern, we hypothesised that concentration of ownership should enhance the performance of the acquiring firms. Nevertheless, at the extremely high level of concentration, the dominant owner might be free from checks on his control and thus the performance and market value of the acquiring firms will be adversely affected. Thus, the following hypothesis was formulated:

H1: The ownership by the largest shareholders is non-linearly related to post-take-over performance. There is a positive relationship at low levels of ownership and negative relationship at high levels of ownership.

3. Methodology and sample

3.1 Variable definition

The variables used to perform the empirical tests were defined as followed:

Performance

The study employed two types of measurements for post-take-over performance, namely the accounting-based measurement and the market-based measurement. The accounting-based measurement as measured by the adjusted cash flow returns reflects the operating performance of the acquiring firms. It was measured by income before taxes and extraordinary items, plus depreciation and total interest expenses. This measurement is unaffected by depreciation, or the type of financing used to fund the takeover. Therefore, this measure should provide an accurate indicator of efficiency changes as a result of the combination of the firms and thus was used in this study. To compare performance across firms, the operating performance was deflated by the book value of the total assets (CFTA) of the relevant years and averaged for three years for pre-takeover performance and four years for post takeover performance for both acquirers and control firms. Control firms were used to isolate any economic disturbances in the market that could have a systematic effect on the performance of firms (Abdul Rahman, 2000; Ali, 1998; Barber and Lyon, 1996; Ghosh, 2001; Mueller, 1986). The control firms were chosen by matching their principal activities based on the sub-sector classifications as reported in the KLSE Statistics[1] (KLSE, various issues). The post-take-over operating performance which was the control-adjusted cash flow returns (ACFRPOST) resulting from a takeover were evaluated by comparing the post-take-over operating performance of the acquirers with the control firms'. The positive values of ACFRPOST indicate that the acquirers outperform their counterparts in the same business or similar size by acquiring another company.

Tobin's q was used as alternative measurement for the performance of firm where the numerator was the product of the share price of the acquiring firm and the number of common stock shares outstanding, plus the value of the outstanding preferred stock, plus the short-term liabilities net of its short-term assets plus long-term liabilities, deflated by the book value of the total assets of the acquiring firm (Chung & Pruit, 1994). Similar to the accounting-based measurement, we benchmarked the post-take-over firm values of the acquirers to the post-take-over firm values of the control firms. The excess q value (B_C_TQA) measures the effect of take-over on firm value of the acquiring firm as compared to the control firm after a take-over.

Ownership

The ownership stakes of the largest shareholders, including deemed interests (BLARGE) were identified from the Annual Report or Annual Companies Handbooks for the purpose of this study. In order to test the curvilinear relationship between ownership concentration and performance, the ownership stakes of the largest shareholders were squared (BLARSQ).

Control Variables

Pre-take-over control-adjusted cash flow return (ACFRPRE) was used in the accounting-based performance measurement whereas Pre-take-over control-adjusted Tobin's q (B_C_TQB) was used in the market-based assessment in order to assess the influence of pre-take-over performance on post-take-over performance. The method of payment (MPAY) either by cash or equity financing was used to control for asymmetric information as highlighted by Myers and Mjluf (1984). Dummy value of 1 was assigned to the variable if it involved cash in financing the take-over, otherwise, a zero was assigned. New dominant shareholders created in acquirers as a result of the takeover (NEWBLOC) was also controlled to isolate the effect of a possible reverse take-over (Chang, 1998). Dummy value of 1 was assigned to this variable if the take-over has resulted a new block of dominant share ownership. Finally the premiums paid (LNPREM) as measured by the purchase price/book value of the acquired firm were used as a control variable as they may have an impact on takeover performance (Roll, 1986). Natural log was used to normalise the distribution. Table 1 shows the definitions of the variables used.

3.2 Model Specification

The base model was specified as follow:

Performance: f(The largest ownership stakes, Control variables)

Mathematically, the final models were expressed as follow:

Accounting-based model: $ACFRPOST = \alpha + \beta_1 BLARGE_i + \beta_2 BLARSQ_i + \beta_3 ACFRPRE + \beta_4 MPAY_i + \beta_5 NEWBLOC_i + \beta_6 LNPREM_i + \varepsilon_i$.

Market-based model: $B\_C\_TQA = \alpha + \beta_1 BLARGE_i + \beta_2 BLARSQ_i + \beta_3 B\_C\_TQB + \beta_4 MPAY_i + \beta_5 NEWBLOC_i + \beta_6 LNPREM_i + \varepsilon_i$.

where the variables were defined as before.

3.3 Sample

Initial M&A announcement list was identified from the Investors Digest published by the KLSE (various issues). The actual combinations of the firms were confirmed by checking through the Companies Announcement Files[2], Annual Reports and the KLSE Annual Companies Handbook (various issues). The pre- and post-takeover performance and market value data was collected for three years prior to and four years after the takeover. Only successful takeovers were used in the analysis.

Table 1. Variable used

Variable	Name/Proxy	Measurement
Performance		
ACFRPOST	Control-adjusted cash flow returns after take-over. (Excess Returns)	The difference between the average CFTA of bidding and control firms after take-over event.
B_C_TQA	Control adjusted Tobin's q After take-over (Excess q).	The difference between the average q value of the bidding and control firms after take-over event.
Ownership		
BLARGE	Biggest ownership stake	Largest shareholders' interests of the bidder (%), including deemed interests.
BLARSQ	Biggest ownership Square	Square of the largest shareholders' interests (%) of the bidder, including deemed interests.
Control variables		
ACFRPRE	Control-adjusted cash flow returns before take-over	The difference between the average CFTA of bidding and control firms before take-over event.
B_C_TQB	Control-adjusted q value	The difference between the average q value of bidding and control firms before take-over event.
MPAY	Method of payment	Dummy=1 if it involved cash payment, otherwise =0
NEWBLOC	New dominant block created	Dummy =1 If the take-over resulted in the creation of a large new block of equity in the biding firm, otherwise = 0.
LNPREM	Premiums paid	Log (Purchase price/ Book value of acquired firms).

The ownership data were obtained one year prior to the take-over announcement and the new block created was examined after the takeover year. If the dominant owner was a company, the owner of the dominant owner 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 acquired firms 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 acquired firms. The selected acquired firm should have a purchase price of not less than RM5 million as too small an acquired firm will not have any significant impact on the acquirers (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 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 acquired firms 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 acquired firms, and acquired firms that hold concession or licenses for operation[3]. Multiple acquired firms by a single acquirer 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 acquirers announced a few acquired firms in a single announcement, the biggest acquired firm was selected as the matched sample for the acquirers. It also excluded banks, other financial institutions and utility companies in order to improve comparability of balance sheet and income data. The final sample consists of 60 acquirer-acquired firm matched companies. Control companies were chosen from companies in the same sector as the acquirers as defined by the KLSE Statistics and similar size as the acquirers. 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.

Table 2 shows the criteria used for selecting the sample.

Table 2. Sample selection criteria*

Criteria		Total
Announcement		781
Confirmed take-overs	466 (60%)	
Lapsed	315 (40%)	
		781
Types of acquired firms		
Acquired firms from non-public listed companies	376 (81%)	
Acquired firms from public firms	62 (13%)	
Acquired firms from foreign firms	28 (6%)	
		466
Purchase Price		
Purchase price more than RM 5 million	313 (67%)	
Purchase price less than RM 5 million	81 (17%)	
Incomplete information	72 (16%)	466
Purchase Stake		
Purchase stake more than 20% for public listed companies	58 (12%)	
Purchase stake more than 50% for non-public listed companies	321 (69%)	
Others and foreign companies	87 (19%)	
		466
Purchase stakes of more than 20% for public listed companies and purchase price more than RM5 million	44 (16%)	
Purchase stakes of more than 50% for non-public listed companies and purchase price more than RM5m	225 (84%)	
		269
Minus		
Financial statements of acquired firms were not available / with major confounding Events	110	
Total available acquired firms		159
Minus		
Negative book values and incomplete transaction information		23
Total available acquired firms		**136**
minus		
Multiple bids	**55**	
Banks, other finance and utilities companies	**18**	
Total available matched acquirer-acquired firms for analysis		**63**

*Source: Song (2007).

4. Findings

4.1 Descriptive Statistics

Table 3 shows the descriptive statistics of the variables used. On average, the cash flows returns for the acquirers before take-overs were about 2 percent lower than the control firms. It was significant at the conventional level using the one-sample t-test. After the take-over, on average, there was no difference in the returns between the acquirers and control firms. This shows that the operating performance of the acquirers were underperforming as compared to the control firms but on par with the control firms after the take-over event. The Tobin's q, on the contrary, shows that the firm value of the acquirer was higher than the control firm before the take-over event but deteriorated after that. Nevertheless, using the t-statistics, excess q values were not significantly different at the conventional level.

The mean of the largest ownership stakes was at 32 percent. This is consistent with the previous studies (Abdul Samad, 2001; Claessens Djankov, Fan & Lang, 1998) that there was a very high ownership concentration in East Asian corporations. In terms of method of payment, the majority used equity as a means of financing. As a result, about 16 percent of the owners of the acquired firms eventually became the dominant owner in the acquiring firms. The average premiums paid were about 3.7 times of the book value of the acquired firms which was much higher than those paid in the developed countries (Shawky, Kilb & Staas, 1996, 2.24x; Slusky & Caves, 1991, 1.5x).

Table 3. Descriptive Statistics

	N	Mean		Median	Skewness	Minimum	Maximum
Panel 1: Performance/firm value							
ACFRPOST	63	.000		-.006	.109	-.270	.280
B_C_TQA	63	-.058		-.100	.724	-3.492	4.277
Panel 2: Ownership							
BLARGE	63	32.063		29.850	1.009	9.240	84.850
BLARSQ	63	1290.034		891.023	2.201	85.380	7199.520
Panel 3: Control variables							
ACFRPRE	63	-.02	**	-.002	-2.204	-.470	.140
B_C_TQB	60	.203		.125	2.81	-3.533	9.171
MPAY	63	.254		0	1.158	0	1
NEWBLOC	63	.159		0	1.914	0	1
LNPREM	63	1.314		1.248	.363	-.927	4.413

ACFRPOST is the difference between the average CFTA of bidding and control firms after the take-over event. ACFRPRE is the difference between the average CFTA of bidding and control firms before the take-over event. B_C_TQA is the difference between the average q value of the acquirer and control firms after the take-over event. B_C_TQB is the difference between the average q value of acquiring and control firms before the take-over event. BLARGE is the largest shareholders' interests of the bidder (%). BLARSQ is the square of the largest shareholders' interests (%) of the bidder. MPAY is set as Dummy=1 if it involved cash payment, otherwise =0. NEWBLOC is set as Dummy =1 If the take-over resulted in the creation of a large new block of equity in the acquiring firm, otherwise = 0. LNPREM is the Log of Purchase price/ Book value of the acquired firms.

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

4.2 Multiple Regression Analysis

Table 4.2 summarises the results of the regression analysis. Model 1 shows the quadratic function of the effect of the largest ownership stakes (BLARGE) on the operating performance (ACFRPOST) of the acquiring firms as a result of the take-over. The results indicate that there was a curvilinear relationship between ACFRPOST and acquirers biggest ownership stake. The second derivation of the equation, $\frac{d^2y}{dx^2}$ shows a negative value indicates that there was an inverted U relationship between the dependent variable and the independent variables. By differentiating and solving the critical point for the quadratic function, it was found that ACFRPOST tended to increase with the largest ownership but not exceeding the level of 53 percent. After which, the performance declined with ownership. Thus, this study supports the notion that controlling managers tend to entrench at the very high level of ownership but align their interests as their interests increase at the lower level of ownership concentration.

Table 4. Regression Results

Dependent Variable				ACFRPOST					B_C_TQA		
Model	1			2			3		4		
	B	T		B	t		B	t	B	t	
Constant	-0.159	-2.967	***	-0.198	-3.068	***	-0.571	-1.148	-0.852	-1.650	*
BLARGE	0.0077385	2.637	***	0.007	2.192	**	0.021	0.755	0.032	1.129	
BLARSQ	-0.0000730	-2.093	**	0.000	-1.596	*	0.000	-0.589	0.000	-0.965	
ACFRPRE				-0.057	-0.354						
B_C_TQB									-0.203	-2.317	**
MPAY				0.013	0.472				-0.312	-1.243	
NEWBLOC				0.142	4.361	***			0.674	2.345	**
LNPREM				0.021	2.060	**			0.125	1.058	
R Square	0.149			0.394			0.014		0.327		
Adjusted R Square	0.120			0.325			-0.021		0.251		
F-Statistics	5.007	***		5.738	***		0.407		4.291	***	
Weighted by				BASET1					BMVE1		

ACFRPOST is the difference between the average CFTA of bidding and control firms after the take-over event. ACFRPRE is the difference between the average CFTA of bidding and control firms before the take-over event. B_C_TQA is the difference

between the average q value of the acquirer and control firms after the take-over event. B_C_TQB is the difference between the average q value of acquiring and control firms before the take-over event. BLARGE is the largest shareholders' interests of the bidder (%). BLARSQ is the square of the largest shareholders' interests (%) of the bidder. MPAY is set as Dummy=1 if it involved cash payment, otherwise =0. NEWBLOC is set as Dummy =1 If the take-over resulted in the creation of a large new block of equity in the acquiring firm, otherwise = 0. LNPREM is the Log of Purchase price/ Book value of the acquired firms. BASET1 is the total assets of the combined firms after the take-over event. BMVE1 is market value of the combined firms after the take-over event.

* 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.
** *Significantly different from zero at the 1 percent level, using a two-tailed test.

Model 2 shows the results of the regression analysis when the control variables, namely the pre-take-over control-adjusted cash flow returns (ACFRPRE), the method of payment (MPAY), and the premiums paid (LNPREM) were entered into the equation. The regression equations were weighted by the total assets of the combined firms after the take-over event (BASET1) to reduce the effect of heteroscedasticity that may exist in the model due to firm size effect (Gujarati, 1995). Outliers with standardised residuals more than 2.5 in the diagnostic tests were excluded.

Controlling for other explanatory variables, the curvilinear relationship between the largest ownership stakes and operating performance remained unchanged. The control variables, namely the ACFRPRE and MPAY did not have significant impact on the operating performance. Thus, the pre-take-over operating performance (ACFRPRE) did not have significant impact on the post-take-over performance and thus, the variations in ACFRPOST plausibly due to the effect of the take-over (Healy et al, 1992). The insignificant of the method of payment (MPAY) on operating performance did not support the asymmetry of information theory.

The NEWBLOC variable had significant positive impact on the post-take-over operating performance of the acquirers. This supports the findings by Chang (1998) that the creation of large blockholders in the acquiring firm from the acquired firm can serve as an effective monitor of managerial performance. The willingness of the acquired firm shareholders to take large positions in a firm also conveys favourable information about the firm. The premiums paid also had a positive impact on the operating performance indicate that the higher the premiums paid, the higher potential of synergistic gains to the acquiring firms and thus enhanced the performance of the acquirers.

Model 3 shows the alternative specification using the excess q value as dependent variable. The curvilinear relationship between the largest ownership stakes and firm value was not found in this specification. Controlling for the same variables as in Model 2 and weighted by the market value of the combined firms (BMVE1), the curvilinear relationship remains unsubstantiated.

Concluding Remarks

This paper examines the relationship between the ownership stakes of the largest shareholders and the post-take-over operating performance and firm values of the acquiring firms. Using 60 large take-overs in Malaysia from 1990 to 1999, it was found that post-take-over operating performance of the acquiring firms improved as compared to the pre-take-over period when the performance measurement was benchmarked with the control firms in industry similar to that of the acquirers. The results also show that ownership by the largest shareholders who were in control of the corporation had a significant impact on the operating performance of the acquirers in the post-take-over period. However, the market-based assessment failed to substantiate the hypothesis.

The accounting measurement as measured by the control-adjusted cash flow returns rose as the largest ownership stakes increased. However, when the dominant owners obtained a very high level of ownership stakes, where they gain absolute control of the corporation (more than 50 percent), the operating performance as compared to the control firms deteriorated. This shows that at lower levels of ownership stakes, ownership concentration aligns the interests between controlling owners and shareholders. This supports the argument by Jensen and Meckling (1976) and Morck et al (1988) that ownership concentration mitigates agency conflicts.

The declines in the performance when the dominant owner had absolute control reflect that there was a potential of expropriation of minority shareholders by the controlling owners. As the dominant owners were free from checks on his control, the take-overs may be one of the ways for the controlling owners to tunneling out corporate assets instead of generating synergies between the acquired firms and the acquiring firms which supposed to enhance the performance of the combined firms (Johnson et al, 2000). The controlling owner may also make decision to his own preferences rather than maximizing the operating returns of the firms (Morck et al, 1988) This supports the findings by Claessens et al (1999) and La Porta et al (1999) that the agency problem in East Asian corporations was more on the expropriation of minority shareholders rather than the conflict of interests between the managers and the shareholders. Nevertheless, further research should look into the motives of a take-over by large shareholders that should further confirm the expropriation hypothesis.

The market-based performance measurement was inconsistent with the operating performance. This might be due to the fact that the Malaysian capital

market was relatively less efficient as compared to the developed countries whereby the majority of the investors were retails investors who were less sophisticated and speculative (SC, 2004). Thus, given the background of the Malaysian market in the 1990s, we can infer that the market assessment measurement has its limitation in reflecting the true picture of the economic value of take-overs. Thus, it has to be interpreted with cautions. Instead, the adjusted accounting measure should provide a more reliable measure on the effect of take-overs.

References

1. Abdul Rahman, R. (2000). *The effects of corporate acquisitions on operating performance of Malaysian companies.* Unpublished doctoral dissertation, University of Stirling, United Kingdom.
2. Abdul Samad, F. (2002). Ownership structure in the Malaysian corporation sector: Its impact on corporate governance, performance, financing and investment patterns. *Centre on Regulation and Competition: Working Paper Series* (No. 23). Retrieved December 31, 2004, from http://www.competition-regulation.org.uk/publications/workingpapers
3. 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.
4. Ali, R., (1998). *Pengambilan korporate di Malaysia: Sebab dan kesan*. Unpublished doctoral dissertation, Universiti Sains Malaysia, Malaysia.
5. Almeida, H., & Wolfenzon, D. (2003). A theory of family business groups and pyramidal ownership. Retrieved December 31, 2003, from http://www.econ.puc.rio.br/pdf/seminario/2003/pyramids08142003.pdf
6. Barber, B. M., & Lyon, J. L. (1996). Detecting abnormal operating performance: The empirical and power specification of test statistics. *Journal of Financial Economics*, 41, 359-399.
7. Barclay, M. J., & Holderness, C. G. (1989). Private benefits from control of public corporations. *Journal of Financial Economics*, 25, 371-393.
8. Berger, P. G., & Ofek, E. (1995). Diversification effect on firm value. *Journal of Financial Economics*, *37*, 39-65.
9. Chang, S. (1998). Takeovers of privately held targets, methods of payment and acquirer returns. *Journal of Finance*, 53(2), 773-784.
10. Claessens, S., Djankov, S., & Lang, L. H. (1998). Who controls East Asian corporations. *World Bank Policy Research Working Paper* (No. 2054). Retrieved December 31, 2003, from http://www.worldbank.org/research/interest/prr_stuff/working_papers/2054.pdf
11. Claessens, S., Djankov, S., & Xu, L. C. (2000). Corporate Performance in the East Asian Financial Crisis. *The World Bank Research Observe*, *15*(1), 23-46.http://www.worldbank.org/research/interest/prr_stuff/working_papers/2033.pdf
12. Claessens, S., Djankov, S., Fan, J., & Lang, L. (1999). Expropriation of minority shareholders in East Asia. *World Bank Policy Research Working Paper* (No. 2088). Retrieved December 31, 2003, from http://www.worldbank.org/research/interest/prr_stuff/working_papers/2088.pdf
13. Ghosh, A. (2001). Does operating performance really improve following corporate acquisitions? *Journal of Corporate Finance*, 7, 151-178.
14. Gujarati, D. N. (1995). *Basic econometrics*. Singapore: McGraw-Hill.
15. Healy, P. M., Palepu, K. G., & Ruback, R. S. (1992). Does corporate performance improve after mergers. *Journal of Financial Economics*, *31*, 135-175.
16. Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3, 305-360.
17. Khanna, T., & Palepu, K. (2000). Is group affiliation profitable in emerging markets? An analysis of diversified Indian business group. *The Journal of Finance*, *LV*(2), 867-891.
18. KLSE. (1987-2000). KLSE statistics. Kuala Lumpur: Kuala Lumpur Stock Exchange.
19. KLSE. (1987-2002). *Annual companies handbook*. Kuala Lumpur: Kuala Lumpur Stock Exchange.
20. KLSE. (Jan 1984-Jan 2000) Records of bonus & scrip issues, capital changes, calls, etc. *Investors Digest*. Kuala Lumpur: KLSE.
21. La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (1999). Corporate ownership around the world. *Journal of Finance*, LIV(2), 471-517.
22. Lemmon, M. L., & Lins, K. V. (2003). Ownership structure, corporate governance and firm value: Evidence from the East Asian financial crisis. *Journal of Finance*, *58*(4), 1445-1468.
23. Loh, S. C. (1996). *Corporate powers: Controls, remedies and decision making*. Kuala Lumpur: Malayan Law Journal Sdn. Bhd.
24. Malaysia. (1999). *Mid-term Review of Seventh Malaysia Plan*. Kuala Lumpur: Government Printer.
25. McConnell, J. J., & Servaes, H. (1990). Additional evidence on equity ownership and corporate value. *Journal of Financial Economics*, 27(2), 595-612.
26. Morck, R., Shelifer, A., & Vishny, R. (1988). Management ownership and corporate performance: An empirical analysis. *Journal of Financial Economics*, 20, 293-315.

27. Mueller, D. C. (1986). *Profits in the long run*. Cambridge: Cambridge University Press.
28. 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.
29. Powell, R. G., & Stark, A. W. (2005). Does operating performance increase post-takeover for UK takeovers? A comparison of performance measures and benchmarks. *Journal of Corporate Finance*, *11*, 293-317.
30. Roll, R. (1986). The Hubris hypothesis of corporate takeovers. *Journal of Business*, 59(2), 197-216.
31. Securities Commission of Malaysia. (2004). *Capital market development in Malaysia*. Kuala Lumpur: Security Commission of Malaysia.
32. Seth, A. (1990). Value creation in acquisitions: A re-examination of performance issues. *Strategic Management Journal*, *11*, 99-115.
33. Shawky, H. A., Kilb, T., & Staas, C. F. (1996). Determinants of Bank merger Premiums. *Journal of Economics and Finance*, 20(1), 117-131.
34. 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.
35. Song, S. I. (2007). *Effects of ownership structure, motives, and premiums paid on bidding firms' performance.* Unpublished Phd Thesis, Universiti Sains Malaysia, Georgetown, Penang.
36. Williamson, O. E. (1985). *The economic institutions of capitalism: Firms, markets, relational contracting*. New York: Free Press.
37. Wiwattanakantang, Y. (2001). Controlling shareholders and corporate value: Evidence from Thailand. *Pacific-Basin Finance Journal*, *9*(4), 323-362.

Notes:

[1] KLSE Statistics classified sub-sector statistics into 43 broad areas in 1990 and gradually increased to 56 broad areas in 1999.

[2] It contains documents related to companies' announcements such as Circular to Shareholders in relation to takeovers, etc.

[3] 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.