

Mergers and Acquisitions in Malaysia: Do They Increase Shareholder Wealth?

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ABSTRACT

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This study investigates the impact of merger and acquisition announcements on stock prices of bidding firms and target firms in Malaysia, using an event-study methodology. The sample consists of M&A announcements during the period from 1 January 2011 to 30 June 2015. The abnormal returns are derived by using two models, namely the market model (MM) and market adjusted returns (MAR) model. FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBMKLCI) and FTSE Bursa Malaysia EMAS Index (FBMEMAS) are used as the benchmarks. The results of this study reveal positive abnormal returns for the target firms on the announcement day. The results for the multi-day windows around the announcement day also indicate positive cumulative average abnormal returns for both models and benchmarks. In contrast, statistically insignificant results are observed for the bidding firms on the announcement day and also in the multi-day windows. The plausible reasons for the statistically significant positive returns for target firms but insignificant results for the bidding firms include the target firm's shares are undervalued, the bidder offers a significant premium to the target firm's previous stock price and the managers misevaluate the target firm.

Keywords:

Abnormal returns, event study, mergers and acquisitions, target firm, bidding firm

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1. Introduction

Empirical evidence from merger and acquisition (M&A) studies shows that target firms usually experience positive significant abnormal returns on the announcement day and also for several days around the event day [1–6]. Nevertheless, the evidence for bidding firms shows mixed results. Majority of M&A studies have been done in the developed countries, particularly in the US and UK. The impact of M&As in the developing countries may be different due to different economic structures, financial systems, legislations and regulations. Indeed, there are many other dynamic factors that may result in different findings for studies conducted in the developed and developing countries. For that reason, it is not appropriate to generalize that the impact of M&As in the developing countries will be same as the impact of M&As in the developed countries. The gaps in the existing literature regarding this issue provide the opportunity for further research. This paper

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attempts to examine the impact of M&As on shareholder wealth for both target firms and bidding firms in Malaysia.

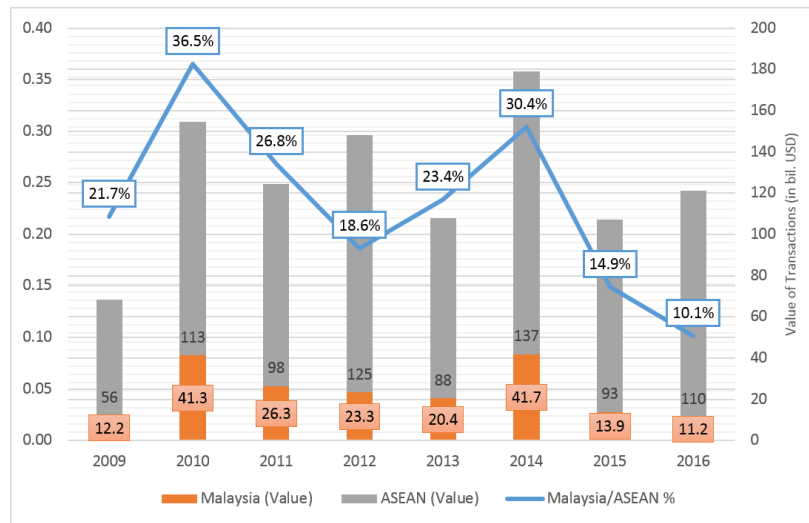


Fig. 1. Value of M&A for Malaysia and ASEAN countries
 (Source: Institute for Mergers, Acquisitions and Alliances - IMAA)

Figure 1 presents the value of M&A deals in Malaysia and ASEAN countries for the period from 2009 to 2016. Overall, the record shows active M&A activities in the region. The highest value of M&A deals in Malaysia was recorded in 2014, at USD41.7 billion. In 2015 and 2016, the value had decreased to USD13.9 billion and USD11.2 billion respectively. This might be due to the economic uncertainty condition and poor market sentiments. Nevertheless, the overall percentage value continued to indicate active M&A activities occurred in Malaysia in particular and in the ASEAN countries in general.

This paper is organized as follow: the first section presents the background of the study, followed by the second section that discusses three major theories used to explain the motives of mergers and acquisitions. The theories are synergy theory, agency theory and hubris theory. In addition, this section also provides an overview of past studies on mergers and acquisitions. Then, the third section explains the methodology used for this study. Finally, the last two sections present and discuss the results and conclusion of the study respectively.

2. Theories and Empirical Evidence of Mergers and Acquisitions

Three prominent theories which are frequently used to explain the motives of bidding firms for engaging in M&As are the synergy theory, agency theory and hubris theory [7–10]. According to synergy theory, managers get involved in M&As to maximize shareholder wealth through synergy creation. A number of studies have documented that synergy is the prime motive for M&As [7, 10, 11]. The synergy theory offers a wide range of value-added measurements and can be classified into three main groups as follow: First, operating synergy. Both the bidding and target firms can get benefit by improving their performance which consequently will lead to higher revenues and lower cost. Some benefits can be in the form of economies of scale and scope [12, 13]. Better cooperation between bidding firms and target firms by organizing working hours, coordinating various production lines, and covering more market segments can be achieved through M&As. The synergy theory is in line with disciplinary theory where both the bidding and target firms that are in the same industry

can focus on operating efficiency goals rather than profitability [14]. In brief, the combination of the firms enable them to utilize their assets and resources more efficiently toward attaining the goals of the newly formed firm.

Second, financial synergy. This type of synergy creates value to a bidding firm by improving cash flows, increasing liquidity, providing more financing sources, reducing tax payment and lowering interest payment. Also, financial synergy can be achieved by increasing diversification of the bidder when it acquires target firms from a different industry and region [1]. Consequently, these synergies may result in lower cost and higher revenue. Third, managerial synergy. Managerial synergy refers to a form of management efficiency as a result of combining managerial experience by the bidding and target firms or improving the poor managerial performance in the bidding firms or in the target firms [4, 5]. For example, target firms benefit through managerial synergies which arise when the acquirer's management team possesses superior planning and monitoring abilities which can be used to improve the poor performance of the target management team. Empirical evidence shows that the bidding firms are actually look for these kind of potential synergies rather than the true value of the target firms in deciding to involve in M&As [15].

In contrast to synergy theory, the agency theory assumes that the managers focus more to maximize their own benefits and wealth rather than maximizing the shareholder wealth [16]. Firms' managers try to keep their power as much as possible through keeping resources under their control, while payouts to shareholders will reduce some of these resources [17]. Based on this theory, managers are assumed to choose involving in M&As over distributing the excess cash to shareholders even if the offer received is not attractive. Berkovitch and Narayanan [18] stated that the negative returns from takeovers can be explained using agency theory. Specifically, agency issue had been identified as the main motive in many of the take overs with negative outcomes.

Another popular theory used to explain M&As' motivation is the hubris theory. According to Roll in [19] managers get involved in M&As based on their own judgement and motivation; they miscalculate target firms due to their hubris motive. As a result, no value will be added to bidding firms when they pay more for a target firm. For example, the manager's excessive confidence which can take the form of overpayment for an M&A activity [20]. In this case, the hubris theory can be associated with another theory related to payment method, called overpayment theory. The overpayment theory argues that higher premium to target firms often caused by cash offer due to several factors. Among them are regulation requirement, competition, and tax effects [21]. Datta and Puia [12] asserted that overpayment may happen when managers overestimate their ability to conduct the target firm. This is obviously the underlying concept of hubris motives. Many studies empirically confirm the existence of hubris as a motive for bidding firms to get involved in M&As [10, 18].

Many past studies on M&As were carried out in the developed countries such as in the US, UK and European countries [4, 6, 12, 18, 22–26]. Findings related to target firms show significant and positive abnormal returns (ARs) which are higher than the returns experienced by the bidding firms. For example, Martynova and Renneboog [2] reported significant positive ARs of up to +9.13% for target firms on the announcement day in Europe. Similarly, according to [3] significantly positive ARs of +11.99% on the announcement day were reported for target firms in the US. Nevertheless, there is no clear evidence on the existence of significantly positive ARs to shareholders in bidding firms on the first announcement day of M&As. Dodd [6] reported significantly negative ARs of -0.62% on the announcement day. In contrast, a +0.53% and +0.54% significantly positive ARs were reported on the event day in the US and Europe, respectively [1, 2]. In brief, the findings of stock prices' reaction to M&As are inconclusive for bidding firms.

Studies conducted in other countries demonstrate similar results. For example, Shah and Arora [27] analysed bidding and target firms' stock price reaction to M&A announcements in the Asia-Pacific countries. They documented significant positive CAARs over four event windows for target firms but statistically insignificant CAARs for the bidding firms. Other studies that give similar results include [28] in Australia; [29], and [30] in Malaysia; [13], and [31] in India; [32] in China; and [33] in BRICKS countries. In conclusion, majority of the findings from previous studies document that target firms experience positive abnormal returns while bidding firms document inconclusive results.

3. Methodology

The sample comprises of M&A announcements by non-financial firms listed on the Main Market of Bursa Malaysia during the period from 1st January 2011 to 30th June 2015. The date when the announcement is first appearing on the Bursa Malaysia website has been identified as the event day. Daily stock closing prices and the market indices, namely FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBMKLCI) and FTSE Bursa Malaysia EMAS Index (FBMEMAS), were obtained from DataStream. The initial sample consisted of 103 announcements of M&As by both target firms and bidding firms.

From the 103 announcements, only 26 bidding firms and 59 target firms were used as the final sample. Firms that were suspended during the estimation period or event period were excluded from the sample. Table 1 and Table 2 show the yearly distribution of M&A announcements, payment method and firms' status.

Table 1
M&A announcements for the period from January 2011 to June 2015

	2011		2012		2013		2014		2015, June		Total	
	Bidder	Target	Bidder	Target	Bidder	Target	Bidder	Target	Bidder	Target	Bidder	Target
Verified announcements	34		23		22		16		8		103	
Number of firms	11	31	6	20	5	20	3	16	4	8	29	96
Number of suspended firms	2	15	1	7	-	8	-	4	-	2	3	36
Selected in sample	9	16	5	13	5	12	3	12	4	6	26	59

Table 2
M&As classified by payment method and the firms' status

	Target Firm	Bidding Firm
Payment Method		
Cash	54	21
Other*	5	5
Status (Acquirer/Target)		
Public	16	22
Private	36	4
Investor	7	-
Total	59	26

*Refers to payment offers that use share financing and mixed financing. Due to their limited number in the sample, they are grouped together.

This study used event study methodology to examine the stock prices' reaction of bidding and target firms to the announcement of M&As. Two different methods were used to estimate the

acquiring and target firms' abnormal returns (AR_{jt}): (1) market adjusted returns model (MAR) (2); and market model (MM).

The normal returns are calculated as follow:

$$R_{jt} = LN\left(\frac{P_{jt}}{P_{jt-1}}\right) \quad (1)$$

$$R_{mt} = LN\left(\frac{P_{mt}}{P_{mt-1}}\right) \quad (2)$$

where: R_{jt} = the normal return for firm j on day t ;
 $LN(P_{jt}/P_{jt-1})$ = the natural log of stock price for firm j on day t divided by the stock price for firm j on the day before;
 R_{mt} = the normal return for market index m on day t ;
 $LN(P_{mt}/P_{mt-1})$ = the natural log of market index price m on day t divided with the market index price m on the day before.

Market Adjusted Returns (MAR) Model assumes that prior expected returns are the same for all companies and equal in any period to the expected returns of the market index [34].

$$E(R_{jt}) = E(R_{mt}) \quad (3)$$

where: $E(R_{jt})$ = expected return for firm j on day t ;
 $E(R_{mt})$ = expected return for market index m on day t .

The AR_{jt} is then calculated as follows:

$$AR_{jt} = R_{jt} - R_{mt} \quad (4)$$

where: AR_{jt} = abnormal return for firm j on day t ;
 R_{jt} = return for firm j on day t ;
 R_{mt} = return for market index m on day t .

Market Model (MM) assumes that stock returns are specified by the following ordinary least squares (OLS) equation:

$$R_{jt} = \alpha + \beta R_{mt} + \varepsilon_{jt} \quad (5)$$

where: R_{jt} = normal return for firm j on day t ;
 R_{mt} = return for market index m on day t ;
 ε_{jt} = error term for company j at time t .

The coefficients α_j and β_j are the OLS parameters of the intercept and slope, respectively, for firm j . The AR_{jt} is then calculated as follows

$$AR_{jt} = R_{jt} - (\hat{\alpha} + \hat{\beta} R_{m,t}) \quad (6)$$

where: AR_{jt} = abnormal return for firm j on day t ;

- R_{jt} = normal return for firm j on day t ;
- $R_{m,t}$ = return for market index m on day t (t = estimation period);
- α_j = estimate of OLS parameter of intercept;
- β_j = estimate of OLS parameter of slope;
- t = the event period.

The Average Abnormal Returns (AARs) are calculated as average for each day of event period, in order to obtain AARs the equation below is used.

$$AAR_t = \frac{1}{N} \sum_{j=1}^N AR_{jt} \quad (7)$$

- where: AR_{jt} = abnormal return for firm j on day t ;
 N = number of firms in the sample.

The Cumulative Average Abnormal Returns (CAARs) are daily abnormal returns cumulated for N firms over part of the event period, over a period of two or more trading days beginning with day $T1$ and ending with day $T2$.

$$CAR_{T1,T2} = \sum_{T1}^{T2} AAR_t \quad (8)$$

$$CAAR_{T1,T2} = \frac{1}{N} \sum_{j=1}^N \sum_{t=T1}^{T2} AR_{jt} \quad (9)$$

- where: AR_{jt} = abnormal return for firm j on day t ;
 CAR = cumulative abnormal return
 $T1, T2$ = accumulation period;
 N = number of firms in the sample.

The cumulative market adjusted abnormal return (CMAR)

$$CMAR = \sum_{T1}^{T2} \frac{1}{N} \sum_{j=1}^N AR_{jt} \quad (10)$$

where: AR_{jt} = abnormal return for firm j on day t based on equation (4).

4. Results and Discussion

Table 3 presents the returns for target firms using FBMKLCI as a benchmark. The table shows very clearly that the target firms gain from M&A activities in the Malaysian market. Statistically significant positive abnormal returns are observed for both models. The positive results are consistent with previous studies [1–4, 6].

Abnormal returns (ARs) calculated based on MM is reported at +3.24% while AR based on MAR model is reported at +3.14%. It is observed that the ARs generated by the MM is higher compared to the ARs by the MAR model. The MM cumulative abnormal returns (CARs) from day 60 before the announcement until the announcement day is 11.53% based on FBMKLCI and 12.33% based on FBMEMAS, both are significantly positive. Target firms' CARs during the 81 days (-60 to +20) is 19.7% using FBMEMAS and 18.19% using FBMKLCI based on MM calculation.

Table 3
Daily AR and CAR values for target firms

Calculation based on MM							Calculation based on MAR		
t	AR (%)	t-value(A)	t-value(B)	CAR (%)	t-value(A)	t-value(B)	AR (%)	t-value(A)	CAR (%)
-60	0.40	0.90	1.104	0.40	0.90	1.104	0.42	0.895	0.42
-40	-0.10	-0.16	0.409	1.20	0.56	1.234	-0.06	0.023	1.38
-20	0.30	0.71	-0.297	3.90	1.38	2.195*	0.37	0.803	4.18
-10	0.84	1.90	1.907	5.21	1.66	2.607*	0.82	1.358	5.45
-9	0.78	1.76	1.272	5.99	1.89	2.785**	0.70	1.081	6.15
-8	0.09	0.30	-0.805	6.08	1.90	2.621*	0.11	0.226	6.26
-7	-0.22	-0.51	0.233	5.85	1.81	2.629*	-0.30	-0.846	5.96
-6	0.85	1.92	3.625**	6.70	2.05*	3.094**	0.77	2.119*	6.73
-5	-0.28	-0.63	-0.197	6.43	1.95	3.004**	-0.39	-1.017	6.34
-4	0.72	1.63	3.269*	7.14	2.15*	3.456**	0.80	2.177*	7.14
-3	-0.02	-0.04	0.500	7.12	2.12*	3.482**	0.09	0.323	7.23
-2	0.87	1.97	2.361*	8.00	2.36*	3.759**	0.95	2.263*	8.18
-1	0.29	0.67	1.318	8.29	2.43*	3.898**	0.25	0.389	8.43
0	3.24	7.35**	9.11**	11.53	3.35**	5.032**	3.14	2.647*	11.57
1	4.67	10.60*	14.90*	16.20	4.67**	6.884**	4.62	3.911*	16.20
2	-0.15	-0.35	-1.335	16.05	4.59**	6.661**	-0.16	-0.469	16.03
3	0.63	1.43	0.431	16.68	4.73**	6.663**	0.72	0.873	16.75
4	0.52	1.18	0.655	17.19	4.83**	6.693**	0.55	1.312	17.30
5	0.17	0.38	0.459	17.36	4.85**	6.700**	0.19	0.818	17.49
6	0.82	1.86	1.490	18.18	5.04**	6.830**	0.95	1.388	18.44
7	-0.17	-0.38	-0.449	18.02	4.96**	6.725**	-0.10	-0.3677	18.34
8	-0.00	-0.01	-0.263	18.01	4.92**	6.645**	0.04	0.132	18.38
9	0.21	0.468	0.661	18.23	4.95**	6.676**	0.22	1.165	18.60
10	-0.17	-0.38	0.058	18.06	4.87**	6.636**	-0.08	-0.134	18.52
20	0.37	0.90	0.912	18.19	4.76**	6.482**	0.34	1.301	19.49
Observation			59					59	

*, **, represents significance level at 5% and 1%, respectively. t-value(A): based on the traditional t-test approach [35]. T-value (B): based on standardized cross-sectional test.

Abnormal returns (ARs) calculated based on MM is reported at +3.24% while AR based on MAR model is reported at +3.14%. It is observed that the ARs generated by the MM is higher compared to the ARs by the MAR model. The MM cumulative abnormal returns (CARs) from day 60 before the announcement until the announcement day is 11.53% based on FBMKLCI and 12.33% based on FBMEMAS, both are significantly positive. Target firms' CARs during the 81 days (-60 to +20) is 19.7% using FBMEMAS and 18.19% using FBMKLCI based on MM calculation.

Table 4 shows multi-day windows' findings related to pre-announcement period, announcement period and post-announcement period for the target firms.

Table 4

CAARs of target firms

window	Calculation based on MM			Calculation based on MAR	
	CAAR (%)	t-value(A)	t-value(B)	CAAR (%)	t-value(A)
Pre-event					
(-60;-3)	7.13	2.123*	3.482**	7.23	2.660**
(-20; -3)	3.54	1.895	2.867**	3.42	1.678
(-10;-2)	3.63	2.744**	4.055**	3.56	2.370*
(-10;-3)	2.76	2.212*	3.466**	2.60	1.682
At event					
(-1;+1)	8.92	10.75**	14.62**	8.01	5.552**
(-2;+2)	8.92	9.056**	11.79**	8.80	5.710**
(-5;+5)	10.66	7.298**	9.598**	10.76	4.595**
(-7;+7)	11.94	6.998**	9.391**	12.08	4.379**
(-10,+10)	13.69	6.782**	8.554**	13.89	4.216**
(-20;+20)	15.30	5.426**	6.875**	15.69	4.622**
Post-event					
(+3;+20)	2.84	1.521	1.317	3.46	1.894
(+3;+10)	2.02	1.618	1.075	2.48	1.136
(+2;+10)	1.86	1.409	0.569	2.32	1.003
Observations		59		59	

*, **, represents significance level at 5% and 1%, respectively. t-value(A): based on the traditional t-test approach [35]. T-value (B): based on standardized cross-sectional test.

Based on MM, the four pre-announcement periods show positively significant CAARs for target firms. The MARs model's CAARs are significantly positive for two pre-event windows which are 58-day window (-60 to -3) and 9-days window (-10 to -2). Both the CAARs that generated by the two models (MM and MAR) are close for the same windows. At-event, multi-day windows show significantly positive CAARs at the 1% level for all the five windows under the two models. The shorter window (-1 to +1) shows CAARs up to +8.01% and +8.92% for the MM and the MAR, respectively. The CAARs increase from the shorter window to the longer window. +15.30% is observed for the 41-day window (-20 to +20) using MM and +15.69% using MAR. Nevertheless, for post-event period the CAARs are statistically not significant for both models.

Table 5 shows the daily ARs for bidding firms during the event period. Statistically, there are no significant ARs on day 0. Five days have significant ARs during the event period namely, day -5, day -4, day +1, day +6, and day +10. All of the daily ARs that are generated by MAR are not significant. The results are inconsistent with Malaysian past findings that reported significant AR on the announcement day [29, 30]. The outcomes from the two models in this study do not show any significant ARs during the event period. The insignificant AR on the announcement day is however consistent with some studies such as those conducted in BRICKS countries [33] and in Australia [28].

Table 5
 Daily ARs and CAR values for bidding firms

t	Calculation based on MM						Calculation based on MAR		
	AR (%)	t-value(A)	t-value(B)	CAR (%)	t-value(A)	t-value(B)	AR (%)	t-value(A)	CAR (%)
-20	-0.19	-0.434	-0.664	-0.19	-0.434	-0.664	-0.13	-0.467	-0.13
-10	0.23	0.521	0.649	-0.69	-0.471	0.706	0.24	0.543	-0.59
-6	0.11	0.244	-0.370	-0.84	-0.491	0.739	0.10	0.360	-0.77
-5	1.84	4.171**	2.551*	1.00	0.566	0.078	1.84	1.603	1.07
-4	-1.33	-3.010**	-2.117*	-0.33	-0.180	0.589	-1.29	-1.759	-0.22
-3	0.77	1.755	1.149	0.47	0.239	0.302	0.80	0.914	0.58
-2	-0.31	-0.698	0.190	0.14	0.072	0.250	-0.24	-0.607	0.34
-1	0.52	1.176	1.303	0.66	0.333	0.048	0.44	0.993	0.78
0	0.13	0.301	0.524	0.79	0.391	0.160	0.06	0.078	0.83
1	-0.98	-2.215*	-2.680*	-0.19	-0.090	0.414	-0.95	-1.586	-0.12
2	-0.90	-2.050	-0.990	-1.09	-0.516	0.611	-0.84	-1.082	-0.94
3	0.55	1.239	0.572	-0.54	0.252	0.482	0.54	1.016	-0.40
4	-0.60	-1.365	-2.026	-1.15	-0.520	0.877	-0.55	-1.17	-0.95
5	0.17	0.377	0.090	-0.98	-0.436	0.842	0.18	0.285	-0.76
6	0.97	2.201*	2.471*	-0.01	-0.004	0.351	0.95	1.606	0.19
10	0.70	1.589	2.370*	1.28	0.522	0.169	0.78	1.423	1.56
20	-0.26	-0.584	0.484	0.42	0.148	0.198	-0.18	-0.633	1.34
Observation	26						26		

*, **, represents significance level at 5% and 1%, respectively. t-value(A): based on the traditional t-test approach [35].
 t-value (B): based on standardized cross-sectional test

Table 6 shows the CAARs of bidding firms for the three sub-periods. The same results are observed for both models. No statistically significant results are observed in almost all event windows regardless of the model used. Only one pre-event window (-10 to -3) that reveal positive returns of +1.40%.

Table 6
CAARs of bidding firms

window	Calculation based on MM			Calculation based on MAR	
	CAAR (%)	T-value(A)	T-value(B)	CAAR (%)	T-value(A)
Pre-event					
(-20;-3)	0.45	0.238	-0.302	0.58	0.257
(-10;-2)	1.06	0.799	0.634	1.45	0.942
(-10;-3)	1.36	1.094	0.605	1.40	2.209*
At event					
(-1;+1)	-0.33	-0.426	-0.492	-0.45	-0.499
(-2;+2)	-1.54	-1.559	-0.739	-1.52	-1.039
(-5;+5)	-0.14	-0.096	-0.432	0.01	0.002
(-7;+7)	1.02	0.599	0.295	1.13	0.615
(-10,+10)	2.20	1.089	0.858	2.39	0.987
(-20,+20)	0.42	0.149	-0.198	1.34	0.515
Post-event					
(+3,+20)	1.51	0.806	0.392	2.28	1.253
(+3,+10)	2.37	1.902	1.368	2.51	1.149
(+2,+10)	1.47	1.110	0.960	1.67	0.954
Observations		26		26	

*, **, represents significance level at 5% and 1%, respectively. t-value(A): based on the traditional t-test approach [35]. t-value (B): based on standardized cross-sectional test.

In brief, significant positive abnormal returns are observed for the target firms on the announcement day and during the multi-day windows around the announcement day. Thus, the findings are consistent with past studies. This study shows 8.93% CAAR for the 5-days window which is higher compare to 3.73% CAAR for 5-days window that reported by [36] and 2.51% for the same window that reported by [29, 31, 36]. Nevertheless, findings related to bidding firms are not consistent with or do not support past studies. To summarize, the results of the study suggest that for target firms, the M&A activity may lead to value creation while for bidding firms there is no evidence of value creation. Insignificant CAAR in 5-day, 11-day, 15-day, and 21-day window for acquirers was reported by [27] in Asia-Pacific countries. Similarly, Isa and Lee [30] reported insignificant CAAR for 11-day and 31-day for bidders acquire public target which is same with the sample here 22 public target firms and 4 private firms.

5. Conclusion

This study examines the stock price's reaction to M&A announcements by Malaysian bidding and target firms. Using M&As' data during the period from January 1, 2011 to June 30, 2015, the final sample comprises of 26 bidding firms and 59 target firms. In general, findings related to target firms are consistent with past studies [29, 31, 36]. Target firms gain positively significant ARs (up to +3.3%) on day 0 as well as in the period surrounding the announcement day. In this study, the 5-day window period (-2 to +2) reported significantly positive CAARs of +8.9% compared to +2.59% for the same widow reported by [36] in their study about the third Malaysian M&As wave for the period from 2000 to 2009. Findings by [27] from Asia-Pacific showed significantly positive CAARs of +9.5% for the 5-day window period. The study covered M&As in 2013 which is closer to the period of this study. It is noted that higher returns for target firms are reported by this study compared to the previous M&A studies in Malaysia. On the contrary, results for the bidding firms do not support the results of past studies [29, 30, 37] which reported significantly positive ARs on the event day and the days

surrounding the announcement day. Nevertheless, the results do support some the past studies that documented insignificant AR for the bidding firms in the emerging markets [27, 33].

In brief, the bidding firms' results in this study do not support synergy theory since no positive result is observed. For the target firms, the plausible reason for the positive outcomes is the target firm's shares are undervalued and the prices rise to the price offered by the bidder. Another possibility is the bidder offers a significant premium to the target firm's previous stock price and the market views this scenario as positive signal. Lastly, the results may be explained by hubris theory where managers are over confident that the M&A activity will result in positive impact and misevaluate the target firm. Consequently, no value will be added to bidding firms when they pay more to a target firm and the market views the scenario as negative signal. Future research may investigate the impact of underlying source of financing and payment methods employed on the firms' performance.

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