CHAPTER ONE

INTRODUCTION

1.1 The Merger & Acquisition Wave

The understanding of merger and acquisition (M&A) activities is inevitably linked to most companies as their concentric or conglomerate diversification. The scale and pace of merger activities in the United States have been remarkable. The M&A boom that swept the U.S in the 1980's had indeed resulted in high degree of efficiency and competitiveness world-wide despite the criticisms made on worker layoffs and corporate downsizing. In fact the M&A activities have continued uninterrupted in the U.S and Europe as companies continuously focusing on core competencies and benefiting from global economies of scale via the M&A activities.

However, in the 1990's M&A activities have become more rapid where the presence of the M&A activity in the globalisation process gives a boost to many American and European multinational companies to acquire related businesses in Asian countries. Nevertheless, when the financial crisis broke out in July 1997 and towards the end of the year, the M&A fever effected most companies in Asia as a means for survival. In light with the economic reform as a result of the crisis, many Asian countries mainly Thailand, Indonesia and South Korea have paved ways for foreign companies to take over their local conglomerates. Thus, the M&A during the period of the crisis caused much pain in terms of worker layoffs particularly in the acquired companies.

Undoubtedly, the M&A activity in line with the financial crisis has emerged as 'one of the only ways' in which Asian economies can achieve a viable reorganisation and restructuring.

1.2 Definitions

Weinberg and Blank[1] define *merger* as an arrangement whereby the assets of two companies become vested in or under the control of one company (which may or may not be one of the original two companies), which has all or substantially all, the shareholders of the two companies.

On the other hand, Charles A. Scharf[2] describes the term *acquisition* as any transaction in which a buyer acquires all or part of the assets and business of a seller or part of stock or other securities of the seller, where the transaction is closed between a willing buyer and a willing seller, i.e., a seller whose management agrees to the acquisition and helps negotiate its terms.

Nonetheless, there are a few types of acquisition. The two types of acquisition that have been widely practised in most organisations are asset acquisition and stock acquisition. An *asset acquisition* is an acquisition in which the buyer acquires all or a part of the assets and business of the seller, pursuant to a contract entered into between the buyer and seller. In contrast, a *stock acquisition* is an acquisition in which all or a part of the outstanding stock of the seller is acquired from the stockholders of the seller. It should be noted that for this study data on acquisitions collected were based on stock acquisitions.

Since the words acquisition and takeover are interchangeably used and to a certain extent, we tend to get confused, thus defining the word takeover is essentially important. A takeover is defined as a transaction or series of transaction whereby a person (individual, group of individual or company) acquires control over the assets of a company, either directly by becoming the owner of those assets or indirectly by obtaining control of the management of the company.

[1] Weinberg and Blank (1979),"Takeovers and Mergers", 4th.ed. London: Sweet & Maxwell, 3-4.
[2] Charles A.Scharf (1971),"Acquisitions, Mergers, .Sales and Takeovers", New Jersey: Prentice Hall, Inc., 3-4.

In short, a takeover happens only when the control of the company of the seller passes to the buyer. For this study, the words acquisition and takeover carry the same meaning since the criterion is that the acquiring companies should have acquired at least 51% of the outstanding shares of the target companies.

1.3 Mergers & Acquisitions in Malaysia

M&A activities obviously started in the 70's which were largely confined to oil palm and rubber plantation companies. The involvement of foreign companies in the M&A activity was also noted to be quite significant especially in the plantation sector.

In the 1980's, rapid growth particularly in the industrial sector coupled with the privatisation policy have boosted many companies to become more acquisitive in diversifying their businesses. Among the major acquisitions in the 80's were, Sports Toto taken over by Melewar Corporation and B & B Enterprise Sdn Bhd (1985), Big Sweep Lottery taken over by Pan Malaysian Sweeps Sdn Bhd (1989) and UEM took over the North South Highway project in 1987.

However, in the 1990's, merger and acquisition activities started grabbing the headlines. Several Malaysian companies were involved in takeover proposals or acquisitions of substantially equity stakes in companies both foreign and local, while others acquired property and yet others were subjects of mergers. Among the ten largest corporate deals in 1994 were acquisition of 32 per cent in MAS made by Malaysian Helicopter Services; acquisition of 45 per cent stake in SESCO by Dunlop Estate; and takeover of Penang Bridge Concession by Acidchem. According to Merrill Lynch[3]

[3] Business Times, January 11 1995

International Bank Ltd, Malaysia was the leading Asia Pacific "acquirer" and "target" nation for mergers and acquisitions in 1996. It was noted that the volume of completed deals in the region has grown at annual growth rate of 15.4% against the global annual growth rate of 8.1% between 1990 and 1996.

Towards the end of the decade, the guessing game over the merger possibilities among the banks and financial institutions was finally concluded when all the six anchor banks disclosed their marriage partners. The six lead banks are Maybank, Bank of Bumiputra Commerce Berhad, Public Bank, Southern Bank, Perwira Affin Bank and Multipurpose bank[4].

Undoubtedly, the M&A activity has become increasingly important in today's business world. As a result of the financial crisis which broke out in July 1997 many companies in Asia in general and Malaysia in particular have faced serious financial distress. In the case of Malaysia, many arguments made for the downfall of those companies and one of the big arguments was on the issue of over-diversification via mergers and acquisitions.

However, to what extent the activity of merger and acquisition has resulted in poor performance of those companies remains debatable. Many studies have been made on mergers and acquisitions but surprisingly, very few have considered some specific characteristics of acquiring companies and the effect of the financial crisis.

[4] The Star, July 31 1999

1.4 Objectives of the Study

i. This study is an attempt to examine the performance of non-financial companies (involved in the M&A activities between 1990 and1995) over the period 1996-1998.

ii. To assess the performance of low sales growth companies and high sales growth companies over the period 1996-1998 and between pre-crisis period and crisis period.

iii. To compare the performance of low sales growth companies and high sales growth companies with respect of the periods; pre-crisis, crisis and 1996-1998.

iv. To assess shareholder value appreciation in comparison between low sales growth companies and high sales growth companies during the post-acquisition period.

1.5 Significance of the Study

Even though there have been many studies conducted on mergers and acquisitions in Malaysia, not many are intended to non-financial companies in light with their performance. Besides looking at the performance of the non-financial companies over the period 1996-1998, this study will also examine the extent to which shareholders of both low sales growth companies and high sales growth companies have benefited from mergers and acquisitions. It should also be noted that the impact of the financial crisis on the non-financial companies has also been incorporated in the study.

The findings and results of this study will be of interest to academicians, business analysts and corporate strategists. Existing shareholders and potential investors may also benefit from the results of this study.

1.6 Scope of the Study

This study focuses on a sample of non-financial public listed companies that participated in M&A activities in Malaysia between 1990 and 1995. The study analyses the performance of non-financial companies over the period 1996-1998 (30 months). The performance is observed in a different perspective including a simultaneous comparison between the low sales growth companies and high sales growth companies over the period 1996-1998. It should also be noted that the first 15 months is denoted as **pre-crisis period** and the following 15 months is denoted as **crisis period**. The analysis also covers a comparative study between the two groups of companies by focusing on the shareholder value appreciation.

1.7 Limitations of the Study

As this study is based on secondary financial data, there is a possibility of biasness and distortion which may lead to misinterpretation of the results obtained. The selection of the 60 public listed companies may be perceived insufficient to be representative of the whole non-financial companies in Malaysia. Similarly, the use of 30 months of post-acquisition period may also be highly argued limitation. But then, some researchers (including Ajit Singh) have used a 2-year period of post-acquisition to assess performance. In the mean time, difficulty was also faced in obtaining financial data of a few companies, as there were no current reports available.

1.8 Organisation of the Study

This study is organised as follows; Chapter One highlights the M&A activities in general coupled with the Malaysian experience of the M&A wave. Definitions for some specific terms are also given. The objectives and significance of the study are vividly explained. Also included are the scope and limitations of the study.

Chapter Two reveals the findings of the previous studies. The characteristics of acquiring companies in relation to their performance are discussed. The literature review also covers the implications of M&A activities on shareholders' wealth. Also included is some related information on mergers and acquisitions.

Chapter Three describes the research methodology. The research hypotheses are first outlined. Selections of measures, sampling design, data collection procedure are explained. The data analysis techniques adopted for the study are also explained in this chapter.

Chapter Four analyses the data gathered for the study and the testing of the hypotheses is also shown in this chapter.

Chapter Five summarises and concludes the findings. Suggestions and recommendations are also discussed in this chapter.