CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Summary and Conclusions

It can be pointed out that those non-financial companies that participated in mergers and acquisitions between 1990 and 1995, had experienced decreasing share prices over the period 1996-1998. As a result of this, the capital gains yield was recorded at -25.59 per cent. As for the LSG companies, their capital gains yield was on average registered at -11.53 per cent over the same period.

On the other hand, where the HSG companies are concerned, their capital gains yield was even worse, at -39.64 per cent. We have also come to understand that the financial crisis had indeed further deteriorated the capital gains yield of the HSG companies. Conversely, LSG companies had actually benefited from the crisis period or rather it could be, the effect of the crisis worked somewhat in favour with the LSG companies.

It has also been noted that the M&A activities failed to boost the performance of both groups even before the crisis broke out in July 1997. Lack of synergetic effect via the M&A activities and failing to consider the M&A motive in line with their strategic planning could be the major reasons for the unfavourable results as reported earlier.

However, the LSG managed to show a positive capital gains yield (8.66 per cent) during the crisis period during which the share prices of HSG companies took a steep dive. Based on the mean scores of asset, it has been found out that the LSG companies were basically large organisations as compared to the HSG companies.

Non-financial companies with low sales growth rates but large in size, that were involved in M&A activities registered greater ROE (17.5 per cent) as compared to the ROE (12.2 per cent) of companies with high sales growth rates. But then, shareholders of HSG companies enjoyed with higher EPS and received higher dividends payout but the companies were engaged to lower gearing ratio. Thus it reveals that HSG companies which were relatively smaller in size, financed their assets mainly through equity, thus the ROE became relatively smaller compared to that of LSG companies.

It can also be concluded that of all the predictors; EPS, gearing ratio, PE ratio, DPO and asset, only EPS seems to have a greater influence on the ROE where the non-financial companies are concerned.

A closer look at both LSG and HSG companies, we have come to realise that the higher the EPS and DPO, the greater the ROE would be for LSG companies. As for the HSG companies, higher EPS results in greater ROE (there is only one predictor for ROE).

However, even though the EPS is the main determinant factor for both LSG and HSG companies, the degree of a change in ROE as a result of a change in any of the predictors tends to be different. For instance, a RM1 increase in the EPS will result in an increase of; RM0.25 in the ROE of the LSG companies, RM0.11 in ROE of HSG companies, but RM0.18 in ROE of the whole financial companies. In short, to predict a non-financial company's ROE, the use of EPS would be the best.

This study also signifies some important implications where the mergers and acquisitions are concerned. As pointed out by this study, it was not really the **diversification** that resulted from the M&A activities, but rather it was **'diworseification'** that became more pronounced for most companies during the post-acquisition period, in general and during the pre-crisis period, in particular. These findings are indeed in tune with the previous studies that have also reiterated that mergers and acquisitions in general do not help companies to meet their sustainable growth rates.

Does this mean the M&A activity is a devastating move? Undoubtedly, the motives for, and types of, mergers are the key factors in explaining the performance of merged, acquiring and acquired companies during the post-acquisition period.

In the Malaysian context, arguments can be made in various perspectives. First of all, expectation from a merger could be the main issue, whereby, shot-term gains were probably very much emphasised for the selling shareholders. Second, failing to understand the description of merger strategy could be another reason.

Based on research done in Europe, where merger strategy is concerned, 40 per cent of firms participated in M&A in takeovers considered that " improving profit figures" was their prime motive, followed by "building stronger products by acquiring innovative firms" (30 per cent) and 21 per cent considered "to keep acquiring until market leadership has occurred".

However, in relation to the above, we do not really know what the Malaysian businessmen have in their mind when they are to embark on new projects. Nonetheless, based on some specific observation, reducing degree of competition is very much emphasised.

Kenneth Jansson (1994) however, says three factor leading to success after an acquisition are strong products, large market share and geographical coverage.

Types of merger could also be another reason to justify why the non-financial companies were unable to fully benefit from mergers and acquisitions. Some studies showed related mergers generated higher gains for acquiring companies but some also indicated there were no differences in terms of gains with respect of the types of merger. A study conducted by Harbir Singh (1987), acquiring firms significantly benefited from related mergers as compared to unrelated mergers.

Therefore, Malaysian companies, particularly the non-financial companies should really understand how to benefit from the activities of merger and acquisition in a very specific manner in meeting their long- term goals.

However, it should be borne in mind that this study is solely based on the secondary financial data. As the data can be easily manipulated, it therefore may not be reflective of the actual practice. Furthermore, personal justification used on certain aspects of the study may seem to be arguable. However, this would not deteriorate the results of the study as the adopted techniques and procedures were consistently used throughout the study.

5.2 Suggestions for Additional Research

On a pragmatic level this study underscores the need to combine what may be called theoretical with the practical aspects of mergers and acquisition. However, further efforts to clarify these issues empirically will increase our understanding of these important phenomena. One of the aspects that can be of interest to researchers is on the related business and unrelated business mergers. That is to examine which one of the two tends to generate greater economic gains for an acquiring company in comparison between pre-acquisition and post-acquisition period. Another area that researchers may explore is to examine the performance of non-financial companies by sector i.e., manufacturing, telecommunications, construction, properties, hotels, agriculture etc in relation to their involvement in merger and acquisition activities.

5.3 Implications

For business analysts, corporate strategists and shareholders, some implications from this study can be offered. It seems quite clear from the findings that the listed non-financial companies, being the acquiring companies do not benefit from acquisitions. Companies with low sales growth rate, relatively larger in size, pay lower dividends and engaged to higher gearing ratio. Theoretical aspect in terms of the relationship between the ROE and other profitability measures in light with the M&A activities as discussed in the study would be useful especially to shareholders.