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Performance of Cross–border Mergers and Acquisitions in Five East Asian Countries

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ABSTRACT

This paper provides an overview of cross-border mergers and acquisitions (CBMAs) and target firms' performance in the five countries most affected by the Asian financial crisis, namely Malaysia, Thailand, Indonesia, the Philippines, and South Korea. Malaysia had the lowest CBMA percentage as compared to the others while Indonesia recorded the highest among the five countries. The majority of the CBMAs in these countries were in the financial sector, followed by the industrial and material sectors. The results show a marginal improvement in the performance or perceived growth opportunities as measured by the adjusted Tobin's q. When comparing the performances of CBMAs across countries, they are inconclusive for four of the five countries with the exception of Malaysia which shows negative values. The findings reflect the heterogeneity and complexity of the causes and effects of CBMAs in this region.

Keywords: Mergers and acquisitions, East Asia, and target firms' performance

INTRODUCTION

Mergers and acquisitions (M&As) have long been a popular form of business investment in the corporate world. The main objective is to channel the corporate assets towards their best possible use. It also represents massive reallocation of resources within and between economies. The trend in M&As shows that cross-border mergers and acquisitions (CBMAs) are getting more popular as

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they enable corporations to expand operations and reach the global market in a short time period (Pricewaterhousecooper, 2004; Sidhu, 2006; Kekic, 2006; Platt, 2008; Chand, 2009). The growth in CBMAs also indicates that countries are increasingly more integrated through the process of globalisation.

CBMAs accounted for about 47 percent of the world wide M&A transactions in 2007 (Platt, 2008). According to Mody and Negishi (2000) the total value of CBMAs in developing countries was $19.5 billion in 1999, up from $17.4 billion in 1998 and $5.3 billion in 1997. The developing countries share of M&As reached 18% in 1998, then fell slightly to 11 percent in 1999. East Asia has been the fastest growing target region, growing at an annual average rate of 10%. A recent study by Kekic (2006) has shown that more than 40 percent of the global foreign direct investments (FDI) flowed into the emerging market of which 85 percent were in the form of CBMAs. The CBMAs in the emerging markets are gradually increasing, accounting for about a quarter of the global CBMAs in 2006. After the Asian financial crisis, Chen and Findlay (2003) reported that CBMA sales have increased dramatically in the developing economies, particularly in the five Asian economies most affected by the financial crisis, namely Malaysia, Thailand, Indonesia, the Philippines, and South Korea (thereafter Korea). The financial crisis has triggered important policy changes and liberalization on the expectation that cross-border M&As would speed up corporate and financial restructuring and facilitate faster economic recovery.

CBMAs can be beneficial to a host country, especially when they actually prevent a potentially distressed company from being wiped out during a financial crisis. However, concerns have been raised as to whether the openness to trade and foreign investment makes developing countries more vulnerable to exploitation by foreign investors (Evenett, 2002), especially on the risk of shifting ownership of important enterprises from domestic to foreign hands.

Despite the popularity of M&As for strategic growth in the corporate world, there are still sparse studies on CBMAs in transition economies. Thus, this study attempts to investigate and provide an overview of the CBMAs in the five East Asian countries namely, Malaysia, the Philippines, Korea, Indonesia, and Thailand, which were most affected by the Asian financial crisis. This study also seeks to establish whether CBMA processes have helped in value creation among firms in the five Asian countries most affected by the Asian financial crisis. Given the different institutional backgrounds of the said five countries as compared to the developed countries, the outcomes of M&As would be valuable to investors and policy makers as to whether the CBMA processes have helped in value creation or improved performance of firms especially after the crisis.

The following sections discuss related literature, data and methodology, findings, and finally the conclusion.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Theoretically, both CBMAs and greenfield foreign direct investments (FDI) are foreign investments from a host economy's point of view (Chen and Findlay, 2003). According to the United Nations Conference on Trade and Development's (UNCTAD, 2000) definition,

> *"A firm can undertake FDI in a host country in either one of two ways: Greenfield investment in a new facility or acquiring or merging with an existing local firm. The local firm may be privately or state owned: privatisation involving foreign investors counts as CBMA, which entails a change in the control of the merged or acquired firm. In a cross-border merger (CBM), the assets and operation of the two firms belonging to two different countries are combined to establish a new legal entity. In a cross-border acquisition (CBA), the control of assets and operations is transferred from a local to a foreign company, the former becoming an affiliate of the later" (p. 99).*

Generally theories of M&As are applicable to CBMAs as well except that they include the cross-border elements. Hawawini and Swary (1990) classified these theories into wealth maximizing and non–wealth maximising. The former motives are consistent with an investment perspective; however, the latter motive in Bessler and Murtagh (2002)'s view, maximising of shareholders' value is not the primary reason behind a merger.

Dunning (1980) highlighted the eclectic paradigm framework for analyzing the motives of firms engaged in international production. He contended that cross-border activities were undertaken to create wealth by internalizing the firm's ownership-specific advantages in foreign locations. This is in line with the efficiency theory (Mueller, 1995; Trautwein, 1990) that the motives for M&As are for synergistic gains such as financial, operational, and managerial, apart from the speed and access to property assets. It is also supported by Mody and Negishi (2000) that CBMAs provide an immediate liquidity and prevent asset losses, and enhance resource allocation, especially for the distressed firms in developing countries, through restructuring.

Financial characteristics such as firms' size, availability of free cash flow and sales growth rate were also found to be important for firms to engage in CBMAs (Gonzalez, Vasconcellos, Kish, and Kramer, 1997). CBMAs might also be driven by risk reduction through product or geographical market diversification so that the acquirers' returns across economies are less correlated than within an economy. It can be seen that firms' motivation was the primary determinant of decisions to undertake CBMAs. However, changes in technology, regulatory frameworks,

and economic conditions in the home and host economies also greatly facilitated the growth of CBMAs (Pricewaterhousecooper, 2004). This is evident from the growth in the number of CBMAs after the financial crisis whereby companies in the five most affected economies were taken over by foreign firms. Thus, an understanding of the institutional background of these countries would enable us to compare and contrast the varied completed M&A transactions.

Moreover, previous studies provided mixed results on the effects of CBMAs on the firms' value. Datta and Puia (1995) found that CBMAs did not bring significant wealth creation to the bidders' shareholders while Markides and Ittner (1994) and Morck and Yeung (1992) found significant value creation for the bidders. Previous studies also show that acquisitions could bring wealth gains to distressed firms (Harris and Ravenscraft, 1991; Hotchkiss and Mooradian, 1998; Kang, 1993). Chari, Ouimet, and Tesar (2004) found that in general, a foreign acquirer may have an incentive to acquire majority control of the target if the improvement in productivity that resulted due to synergy and access to capital, is greater than the loss of control by the local management of the target. On the contrary, mergers could also destroy values when synergies of the merged firms did not materialize (Ghemawat and Ghadar, 2000). This is supported by Rousseau (2006) who argued that the purchase of new and disassembled used-capital which does not expand the span of control is more likely to go towards wasteful acquisitions than internal growth.

The effects of M&As on target companies on average had shown that target firms' shareholders experienced significant positive returns upon the announcements of M&As (Datta, Pinches, and Narayanan, 1992). The typical methods used by previous researchers are event studies which gauge the short-term effects of M&As. Consistent with the domestic M&A studies, Datta *et al*, Harris and Ravenscraft (1991), Andrade, Mitchell and Stafford (2001), Brimble and Sherman (1999), and Otchere and Ip (2006) all found significant higher returns for target shareholders for cross-border transactions.

Generally, the evidence on the impact of CBMAs on target firms' abnormal returns appears to be positive in the short-term. However, empirical studies in CBMAs are still sparse, especially on the long-term effects in transition economies. This study hypothesises that CBMAs should have a long-term positive impact on the target firms' value, using Tobin's q as an alternative measurement to assess the impact of CBMAs on target firms after the Asian financial crisis.

Tobin's q (TQ) is a widely accepted measure of corporate performance or firms' value and investment opportunities used by various researchers (Coeurdacier, De Santis, and Aviat, 2009; Berger and Ofek, 1995; Lang and Stulz, 1994). If the q value is greater than one, it triggers investments and signals valuable growth opportunities. For instance, Berger and Ofek (1995), and Lang and Stulz (1994) have used TQ to analyse the relation between corporate diversification and firm performance. Lang and Stulz contended that

"the ratio of the market value of the firm to the replacement value of its assets is a measure of the contribution of the firms' intangible assets to its market value" (p. 1253). A firm's intangible assets include its organisational capital, reputational capital, monopolistic rents, investment opportunities, and others. As such, the management's actions or a change in control will directly affect the intangible assets and thus the values of the firms. In the context of the CBMAs in the five countries most affected by the crises, the improvement in the q values in target firms would imply that the acquiring foreign firms would have better managerial expertise as well as the technology to turn around the firms and thus improve growth opportunities.

DATA AND METHODOLOGY

The initial CBMA list was identified from the Thomson One Banker M&A database for the five countries, namely Malaysia, Thailand, Indonesia, the Philippines, and Korea. These countries were most badly affected by the financial crisis in 1997. The crisis triggered an unprecedented boom in cross-border mergers and acquisitions. Financial data and market data were collected based on the available information from the database. The number of cross-border cases and their background were collected from 1998–2007, or 10 years after the crisis. The CBMA performance data were collected for three years prior to CBMAs and five years (or a minimum of four years) for the post-CBMA period. Thus, the data collected dated from 1995 to 2007, covering a period of 13 years for the performance assessment but the observations for the number of deals were included up to 2004 to allow for post-CBMA observations of at least 4 years. Only public listed firms and completed deals with more than 10 per cent shares acquisitions by foreigners were included as the sample. This was to exclude portfolio investments so that the CBMAs had caused a change in control of the targets. A threshold of 10 per cent stakes would give the rights to the block shareholders to monitor the companies by calling extra-ordinary meetings should the shareholders wish to intervene in the business of the companies (Loh, 1996).

As mentioned in the earlier section, Tobin's q has been used to assess the performance of firms. The advantage of using TQ as compared to stock returns, is that the former uses present value of future cash flows divided by the replacement cost of tangible assets. Moreover, no risk adjustment or normalization is required when comparing TQ across firms, in contrast to the comparisons of stock returns measure. Thus, in order to capture the effect of different managerial actions or a change in control on the post-CBMA performance, TQ is appropriate to be used here.

This study follows Chung and Pruitt (1994)s' model as it is simpler and requires only basic financial and accounting information as compared to other

models that require complex calculations. Furthermore, this model is able to explain at least 96.6 per cent of the variations in the Lindenberg and Ross (1981) model, which claims to measure the exact TQ. Thus, the target firms' TQ is measured as:

$$\frac{\text{(Market capitalisation + Preferred stock + Total Liability)}}{\text{Total assets}} \quad (1)$$

To isolate the distortion caused by economic or industry specific factors on the firm's values, the pre and post-CBMA firm value of the targets were benchmarked (subtracted) to the median of the industry's TQ based on 3-digit SIC codes. 9 out of the 96 targets were benchmarked against 2-digit SIC codes as a 3 digit-match was not found. Thus, using the TQ measurement, the industry adjusted performance or the excess TQ is the difference between the TQ of the target firms and the industry's TQ median. Some observations were dropped due to insufficient information to compute the performance measurement or the companies had been delisted after CBMAs. This left the final sample of 96 public listed acquired companies (out of 141) with more than 10 per cent shares acquisitions to compute for performance measurements for deals closed from 1998 to 2004.

FINDINGS

M&A Trends and Institutional Background

After the financial crisis, East Asian policymakers had undertaken some major initiatives to strengthen regional financial integration. East Asian economies were much more integrated with the rest of the world through capital inflows than through capital outflows. As discussed earlier, this spur to FDI is also due to liberalization of economies and of policies towards foreign investors (Kekic, 2006).

In the five East Asian countries, CBMAs accounted for the increase in the FDI inflows into these economies from 13 per cent before the crisis to 91 per cent in 1999 (Chen and Findlay, 2003) although Indonesia had a negative FDI inflow after the crisis until 2004. The Philippines lagged behind in terms of attracting foreign direct investments compared to other ASEAN countries in general. The trend of the capital inflows extracted from Datastream Database is shown in Figure 1.

Of the five countries, Malaysia recorded the highest number of announced M&As as shown in Figure 2. The Malaysian M&A activities in general picked up after the economic crisis with more M&As in the private sector and subsidiary companies. This was followed by Korea and Thailand. This trend indicated by

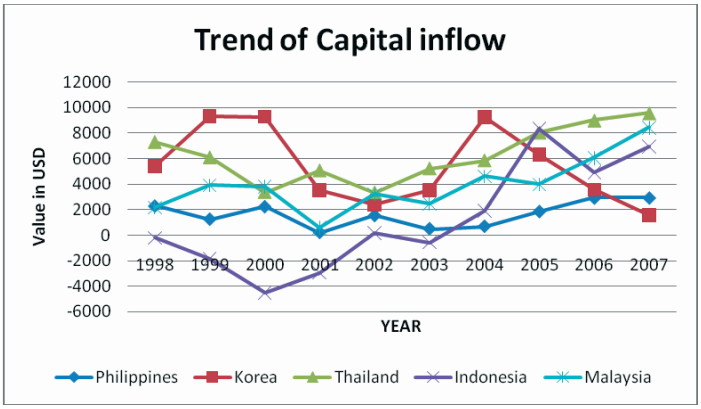

Figure 1 Trend of capital flow

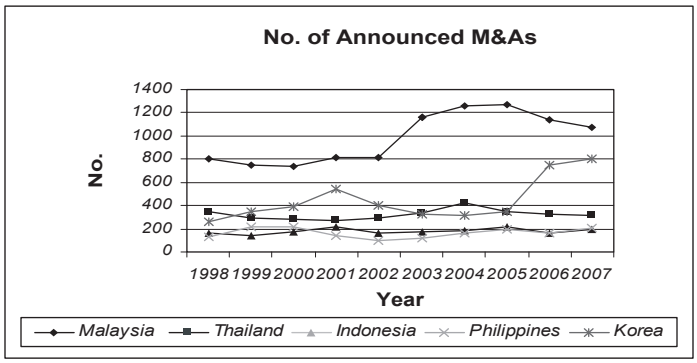

Figure 2 Number of M&As announced

the five countries is supported by Kekic (2006) in terms of ranking of the policy towards the foreign investment index for year 2001–2005 are Malaysia (27), Korea (34), Thailand(51), the Philippines (51) and Indonesia (60) respectively out of 65 countries.

In terms of the success rate of take-over, Malaysia recorded one of the highest, ranging from about 50 per cent in 1998 to over 60 per cent in 2007 (Figure 3). The success rate in the 1970s was only about 40 per cent mainly due to weaknesses in the policy and law governing take-overs (Song, 2007). After 1998, the revision of the Malaysian Code of Take-over and Mergers led to more stringent rules on take-over and greater transparency when the Security Commission adopted the disclosure based regime (Securities Commission of Malaysia, 1998). Success rate in Indonesia was low amongst these countries due

Figure 3 Percentage of successful deals.

to the equity market being under developed and political and social unrest leading to difficulty in the pricing of assets.

The Asian economic crisis of the late 1990s forced a wave of unprecedented restructuring of CBMA activities especially in Indonesia, Korea and the Philippines as shown in Figure 4. Malaysia had the lowest CBMA percentage compared to others, while Indonesia recorded the highest among the five countries. This could be due to the relatively complicated and lengthy administrative processes that involve several regulatory bodies in Malaysia (Wong and Partner, 2005; Song, 2007). In Indonesia, privatisation initiatives, and further restructuring or sales of assets formerly purchased from the Indonesian Bank Restructuring Agency

Figure 4 Percentage of cross-border deals.

(IBRA) or its successor, PT Perusahaan Pengelola Aset (PPA), together with other regular business reasons, contributed to the high number of CBMAs.

Indonesia in the mid 1980s implemented deregulation and a large number of conglomerates rushed to go public following the deregulation. However, by the mid 90s, there were only about 200 local companies listed on the Jarkata Stock Exchange (JSX). As few companies listed in JSX were willing to provide disclosure and transparency in their accounting, capital flows were very highly volatile and speculative in nature. There was further pressure from the World Bank to reform financial reporting policies due to a number of scandals in the country. The 1997/1998 economic crisis hastened the need for reforms in the country to attract foreign investors and also foreign aid. Thus, in July 1999 JSX introduced a new set of corporate governance regulations for publicly-listed companies.

It is interesting to note that Indonesia was one of the few jurisdictions in Asia that allowed foreign ownership of up to 99 per cent in banks. This allowed some key strategic regional players to come in as controlling shareholders of some of the country's most valuable companies operating in the banking industry, besides telecommunications and plantation industries.

The Philippines on the other hand was not as badly affected by the regional financial crisis due to three reasons: firstly, it undertook substantial reforms in the 1990s to strengthen the key sectors of the economy. Secondly, compared to other countries in the region, it was a latecomer to the massive capital inflows, and lastly, their banking and corporate sectors came into the crisis with relatively strong balance sheets. To enhance the participation of the private sector in economic development, the government privatized a large number of government corporations through the introduction of the build-operate-transfer (BOT) scheme. It started liberalizing the entry of foreign investors, having no restrictions on the extent of foreign ownerships of up to 60 per cent in export oriented enterprises and 100 per cent for domestic-oriented enterprises. Although the country recorded the lowest in number and value for M&As, it had a high success rate of between 40 to 50 percent (Figure 3). Foreign investors could own up to 100 per cent of a domestic enterprise in the Philippines provided that the domestic enterprise was not engaged in any of the activities listed as negative.

The Korean economy was dominated by 'chaebols' which were defined as Korea's conglomerate business groups characterized by family ownership and control. Korea's relative lack of M&As was due to a combination of cultural aversion to the selling of a company, government control on the conduct of private companies and vested interests of the company founders who were reluctant to permit foreign ownership of domestic businesses. However after the financial crisis, there was an unprecedented boom in CBMAs in this country peaking in 2000 but gradually declining from 2001 to 2003 as the financial conditions of the chaebol conglomerates improved. At the end of 1994, there

were some legislative changes which had a great impact on the subject of M&As in Korea. Korea also introduced various measures to encourage business consolidations through M&As and liberalizing of foreign investments. Foreigners were permitted to engage in hostile take-overs and make purchases of up to 100 per cent of a target company's outstanding stock without the consent of its board of directors (Office of the United States Trade Representative, 2004). This openness toward FDI adopted by the government of Korea enabled them to pursue quick reforms especially in the financial sector.

As shown in Figure 3, Thailand had more M&As after the crisis compared to the Philippines and Korea. This was because in the late 1990s, there was a surge in the issue of government securities. Prior to the crisis, for 9 years, from 1988 to 1996, the government did not issue any debt securities due to a surplus cash balance. After the financial turmoil, the government issued re-capitalisation bonds with the intention to revive the economy. Various measures were also introduced to encourage business consolidations through M&As and the liberalization of foreign investment. In March 1999, amendment was made to the bankruptcy code, making it easier for creditors to gain control of the debtors' assets to obtain repayments of debts due. Companies with long term prospects such as those in the hotel line attracted great foreign interest.

Sectoral Break Down of CBMAs

CBMA sales tended to happen more in numbers in sectors which were much distressed and were slow in recovery (Mody and Negishi, 2000). Table 1 shows that the majority of CBMAs in these countries were in the financial sector, followed by the industrial and material sectors. In the APEC economies, the financial sector accounted for one fifth of the total value of CBMAs in 1999 (Chen and Findlay, 2003). Telecommunication accounted for one third of the value of M&As mainly due to its importance for the other industries and also the market for its service was large. Among all the five countries, CBMAs were mostly confined to certain industries like finance and communication. In Malaysia, foreign investors bought majority shares in the wholesale and retail trade as well as the finance and real estate sectors. The large number of asset sales in the finance and real estate sectors was partly driven by the efforts of governments to recover assets of the nationalized banking institutions. In 1999, non-performing loans in the banking systems for these countries were considerably high. Indonesia had 50 per cent of its total loans as non-performing, whereas Thailand had 39 per cent and Malaysia had 21 per cent (Mody and Negishi, 2000).

As a result of the financial crisis, various reforms were undertaken in these countries for their financial sectors. For instance in the Philippines, although there was no evidence to support the existence of a credit crunch (Lamberte, 2000), there were reform measures in the financial sector such as the introduction

Table 1 Distribution of CBMA sectors by year (overall)

TF Macro Description	Year										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total
Consumer Products and Services	9	14	18	5	4	8	11	11	13	20	113
Consumer Staples	25	31	16	23	12	16	15	24	16	23	201
Energy and Power	25	30	27	22	13	23	21	19	17	21	218
Financials	71	63	43	47	36	57	75	75	39	45	551
Healthcare	5	8	3	5	5	3	6	2	7	6	50
High Technology	9	29	45	33	21	25	34	37	41	24	298
Industrials	52	51	35	26	45	45	44	44	44	46	432
Materials	62	57	39	42	19	22	41	36	34	41	393
Media and Entertainment	9	16	13	11	15	12	16	15	13	13	133
Real Estate	3	17	11	2	3	10	9	26	12	18	111
Retail	9	14	11	6	2	6	7	11	8	5	79
Telecommunications	11	19	13	16	9	10	13	13	11	8	123

of an independent Central Bank with a healthy balance sheet. There was also liberalization of the entry and scope of operations of foreign banks.

Traditionally, the corporations in the Philippines were less indebted compared to those in the other East Asian countries. This was because they had less access to both the domestic and foreign capital markets. Although they relied on banks for loans, they mostly preferred internally generated funds as banks interest was high. The manufacturing sector after the crisis declined in terms of average debt-equity ratio from 1.99 to 1.36 (Lamberte, 2000). They also took actions to increase their equity via raising capital from their existing owners and inviting foreign players into their business.

In Korea, there was an influx of foreign capital after the crisis of which 27.2 per cent were CBMAs. Business consolidation by mergers and take-overs rose in number. The financial, telecom, and other service sectors absorbed the most FDI in Korea through M&As. In 2005, with the removal of the ceiling allowed by foreign investments, 40 per cent of the Korean Stock Exchange (KSE) shares were owned by foreign shareholders (US Embassy, 2006). With the government's initiative to encourage Research and Development (R&D) to raise the Korean Technology, relatively there was a higher number of CBMAs for high technology companies compared to other sectors.

Businesses in Thailand were in a way like the enterprises in the Philippines which tended to rely heavily on banks rather than the capital market for financing. CBMAs were mostly in the finance and real estate sectors, accounting for over 50 per cent of the total sales. In Indonesia, half the number of CBMAs were in the light manufacturing and petro-chemical sectors, especially in the food product and oil refinery sectors.

In summary, after the financial crisis, especially in Thailand and Korea, there was liberalization of trade and investment regimes, deregulation, privatization of state owned enterprises and relaxation of controls over CBMAs. In Indonesia, the Philippines and Thailand, there was still a requirement to ensure that the market for corporate control could function well. In Indonesia, transactions resulting in changes in control were rare as the rules were very cumbersome. In Thailand, hostile take-overs were made extremely difficult by company ownership structures. In the Philippines, take-overs were impeded by anti-take-over devices, which shielded management from accountability to all shareholders.

Home Country of the Acquiring Firms

Upon reviewing the nationality of the acquiring firms, the United States, Europe, Japan, and the United Kingdom played significant roles in M&A activities in the target countries as shown in Table 2. In Korea, the US has retained the largest single-country share of FDI since the 1960s with some 30 per cent of total

Table 2 Nationality of acquiring firms

	NATIONALITY OF ACQUIRING FIRMS				
	The United States	**Europe**	**The United Kingdom**	**Japan**	**Australia, New Zealand and Canada**
Malaysia	52	82	26	34	27
Thailand	75	91	27	78	15
The Philippines	59	27	19	30	23
Indonesia	43	71	22	35	38
Korea	214	146	38	64	17

FDI. They accounted for 44 per cent of the CBMAs. This was followed by the European Union and Japan.

Firms' Performance

This section provides discussion and analysis of the results for the firms' performance measurements. Table 3 shows the distribution of the samples used for the five East Asian countries. 1998 and 1999 recorded the highest number of CBMAs, corresponding to the "fire sale" FDI (Krugman, 1998) period after the Asian Financial crisis. Thailand topped the list of CBMAs for the sales of equity stakes of the public listed firms.

The financial, material, and industrial sectors were the most highly sought targets (Table 4). As contended by Kamaly (2007), as countries developed, the share of services and finance would expand relative to the goods sectors. This posted investment opportunities for CBMAs into the non-tradable sector. The traditional tradable sectors such as the industrial and material also attracted the highest number of CBMAs during the period. Among the countries, Thailand,

Table 3 Distribution of the samples used by year

Year	**Country**					**Total**
	Malaysia	**Thailand**	**Indonesia**	**The Philippines**	**Korea**	
1998	3	7	2	5	3	20
1999	4	10	4	3	3	24
2000	1	3	2	3	1	10
2001	3	1	0	2	1	7
2002	1	2	5	1	2	11
2003	3	4	1	1	3	12
2004	2	1	3	0	6	12
Total	**17**	**28**	**17**	**15**	**19**	**96**

Table 4 CBMA sector distribution by country

TF Macro Description	Country					Total
	Malaysia	Thailand	Indonesia	The Philippines	Korea	
Consumer Products & Services	0	1	0	1	0	2
Energy and Power	0	1	1	1	1	4
Financials	2	7	4	1	3	17
High Technology	1	1	0	0	5	7
Industrials	7	3	3	0	2	15
Materials	3	5	2	5	2	17
Media and Entertainment	2	2	0	3	1	8
Real Estate	1	4	0	1	0	6
Retail	0	1	1	0	0	2
Consumer Staples	0	2	3	2	0	7
Telecommunications	1	1	1	1	5	9
Healthcare	0	0	2	0	0	2
Total	**17**	**28**	**17**	**15**	**19**	**96**

Indonesia, and Korea had the highest number of acquisitions in the financial sector while Malaysia's industrial sector was the most actively traded.

Table 5 shows the summary statistics of the median and mean of TQ of the targets and the industry adjusted TQs. Before CBMAs, on average, the firms' TQs were below 1. The industry adjusted TQ was negative, implying that the investors perceived that the firms performed below the average for the industry. After CBMAs, the firms' TQ on average increased, but was still below the threshold of 1. Compared to the industry performance, those firms which had experienced a change in control had better performance as compared to their counter parts in the industry. The industry adjusted TQ on average was 6 per cent higher than the industry average and 3.5 per cent above the industry median. The average positive industry adjusted TQs were 55.9 per cent after CBMAs as compared to 52.2 per cent prior to that. This is consistent with the previous studies that showed target firm performance on average improved after CBMAs (Harris and Ravenscraft, 1991; Brimble and Sherman, 1999). However, the improvements in the TQs were only marginally significant at the seven per cent level using a one-tailed paired t-test.

Table 6 shows the results of the firms' performance of CBMAs in their respective countries. Surprisingly, Malaysian firms on average, suffered negative performance in the 5-year period after CBMAs. The paired-sample t test and Wilcoxon Sign Rank tests show significant declines in the TQs at the 5 per cent level using the two-tailed test. The results for Thailand, the Philippines, Indonesia and Korea were inconclusive for both tests.

Table 5 Mean and median of TQ for the target firms in years surrounding CBMAs completed for the period (1998 to 2004)

Year relative to merger	Firm's TQ		Industry Adjusted TQ		% positive
	Median	Mean	Median	Mean	
–3	.93	1.05	.069	.21	58.8
–2	.83	.88	.016	–.06	53.6
–1	.80	.92	–.13	–.18	44.3
Average annual performance for year –3 to –1	**0.85**	**0.95**	**–0.01**	**–0.01**	**52.2**
1	.81	1.02	.03	.17	54.2
2	.82	.95	.05	.03	60.5
3	.79	.91	.06	.04	61.1
4	.82	.91	.01	.015	50.5
5	.87	1.04	.03	.07	53.2
Average annual performance for years 1 to 5	**0.82**	**0.97**	**0.04**	**0.06**	**55.9**

Note. TQ is measured as: (market capitalisation + Preferred stock + Total Liability)/Total assets. The industry adjusted TQ is the difference between the TQ of the target firms and the industry's TQ median.

Table 6 Firms' TQs and industry adjusted TQs by country

Country	Firm's TQ before CBMAs	Firm's TQ after CBMAs	Industry Adjusted TQ before CBMAs	Industry Adjusted TQ after CBMAs
Malaysia (n=17)	1.24 (0.68)	0.90 (0.34)	0.14 (0.76)	–0.05** (0.53)
Thailand (n=28)	0.82 (0.48)	0.95 (0.53)	–0.17 (0.64)	0.03 (0.69)
Indonesia (n=17)	1.01 (0.41)	1.02 (0.47)	0.07 (0.37)	–0.04 (0.56)
The Philippines (n=15)	0.83 (0.43)	0.95 (0.61)	0.17 (0.33)	0.21 (0.37)
Korea (n=19)	0.97 (0.89)	1.05 (0.73)	0.14 (0.72)	0.15 (0.50)
Total	**0.98 (0.61)**	**0.97 (0.54)**	**0.04 (0.61)**	**0.05 (0.56)**

Note. Numbers in parentheses are their respective standard deviations.
**Denotes statistical significance at the 5 percent level.

Table 7 Flow of CBMAs from 1998–2007

Country	Total Outflow	Total Inflow	Total CBMAs	% Outflow	% Inflow	Overall M&As	CBMA Inflow as % of M&As
Malaysia	694	712	1406	49.36	50.64	5659	24.84
Thailand	92	600	692	13.29	86.71	1710	40.47
Indonesia	36	494	530	6.79	93.21	820	64.63
The Philippines	55	278	333	16.52	83.48	778	42.80
Korea	242	618	860	28.14	71.86	2491	34.52

The negative performance of Malaysian CBMAs compared to the industry indicated that the existing companies in the industries were more competitive and had greater growth opportunities. This can be seen from the growth of the Malaysian capital market that expanded about 40 per cent from the number of listed companies of 702 to 963 in 2004. The amount of CBMA outflow was about 50 per cent compared to Thailand, Indonesia, the Philippines at 13, 6, and 16 percent respectively (Table 7). The findings however did not show that targets were generally taken from firms with poor pre CBMA performance (Mikkelson & Patch, 1997) as the TQ before CBMAs was higher than that in the industry. This is consistent with the findings by Song, Ali, and Pillay (2008) and Abdul Rahman and Limmack (2004) that M&As in Malaysia generally were non-disciplinary in nature. Moreover, with highly concentrated ownership, the hostile type of take-over was also unlikely (Claessens, Djankov, Fan, and Lang, 2002). However, other factors such as the acquirer's nation, businesses, ownership structure, TQ, and other transaction characteristics could have an affect on the performance and are suggested for future research.

CONCLUSION

This paper has provided an overview of the M&A activities in the five East Asian countries for the last ten years. The numbers of deals and transaction values have expanded significantly for the last ten years, from 1997 to 2007. Some similarities and differences among the five East Asian countries were discussed.

The trend of M&As is likely to continue in the future for a few reasons. Firstly, governments are encouraging consolidation in the banking and other industries in these countries. Secondly, there are changes in the regulation and incentives provided by governments to recruit investors to invest in the manufacturing and high-tech industries through the provision of tax incentives to attract foreign investors. Thirdly, multinational companies are increasing their investments in this region to achieve greater economies of scale and are

also expanding their markets via cross-selling of their products and services to consumers in different countries.

In terms of performance, generally CBMAs improved firms' performance in the East Asian countries. However, the improvement in the performance or perceived growth opportunities in firms for these countries was only marginal as compared to their industrial counter parts. Malaysia was an exception. Given the heterogeneity and complexity of the causes and effects of CBMAs, further investigations need to be carried out to establish the determinants of the post-CBMA performance. The suggestions for future research include the determinants of CBMAs such as target and acquirers' firm specific characteristics and transaction characteristics.

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