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Long-term performance of mergers and acquisitions in ASEAN countries



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ABSTRACT

The study looks at mergers and acquisitions (M&As) in ASEAN countries and examines the post-M&A performance using data from 2001 to 2012. The industry-adjusted operating performance tends to decline in the 3 years following an M&A. Yet, the results suggest that M&As completed during the financial crisis are more profitable than those implemented before and/or after the crisis. We argue that this is mainly due to the synergies created between the firms' resources during the crisis which augur well for firms' economic performance. We find that, during the crisis, certain characteristics of the firms like the relative size of the target, cross-border nature of deals, acquirer's cash reserves and friendly nature of deals are important determinants of long-term post-M&A operating performance. However, for M&As during the crisis, there appears to be no relationship between performance and firms' characteristics linked to M&A activity such as payment method, industry relatedness and percentage of target's share acquired.

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1. Introduction

In this paper, we focus on intra-regional mergers and acquisitions (M&As) in the ASEAN (Association of Southeast Asian Nations) region. We investigate the determinants of post-M&A performance of companies in this region and examine the impact of the recent global crisis. Developed markets experienced a gloomy economic growth as a consequence of the 2007–2008 financial crisis. Though the 1997–1999 Asian crisis had a profound impact on the ASEAN region (Sufian, 2009) and intra-regional flows decreased after 1997 (Rammal and Zurbruegg, 2006), Asian countries continued to grow robustly after the 2007–2008 crisis (Economist, 2009). With a stable and high growth rate plus a dynamic business environment, ASEAN has emerged to be a promising destination for international investors (UNCTAD, 2012). Authors have suggested that, at regional level, trade agreements attempt to promote cross-border trade (Sufian and Habibullah, 2012). In the early 1990s, M&As were still relatively uncommon in Asia as these firms tend to emphasize internal development (Mitchell and Shaver, 2002) and the M&A market was at an early stage of development with a total value of \$15 billion (Metwalli and Tang, 2009). The creation of ASEAN has gradually integrated the countries within this region. For example, Vietnam's joining of ASEAN has impacted positively its bilateral trade within the region (Anwar and Nguyen, 2011). Since then the ASEAN region

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experienced rapid growth in foreign direct investment (Kindra et al., 1998), and the total value of deals reached its highest level of \$135 billion in 2007 (Metwalli and Tang, 2009). Also, authors have looked at growing foreign direct investment by Asian companies (Berrill and Mannella, 2013; Pananond and Zeithaml, 1998). For example, Thailand's CP group utilized internationalization strategy for its survival and growth.

For multinational companies, M&As in ASEAN market are challenging due to lack of supporting elements such as lawyers, accountants and advisers, which are fundamentally important for a successful transaction (Metwalli and Tang, 2002; Zhan and Ozawa, 2001); companies might have to depend on relational contracting which might be hard to develop in a new country (Indro and Richards, 2007). Moreover, the cultural difference and high corruption level in ASEAN countries make M&As less tempting for firms outside the region (Rammal and Zurbruegg, 2006). Metwalli and Tang (2002) suggest that intra-regional deals will continue to dominate the M&A market in Southeast Asia in the foreseeable future, especially with the implementation of trade agreements among ASEAN countries and the possibility of a currency union (Huang and Guo, 2006). Thus, it is interesting to investigate intra-regional M&As and their performance in ASEAN.

Theoretically, there are a number of reasons why a company could increase its performance through M&A such as synergies (Larsson and Finkelstein, 1999), economies of scope and scale (Pangarkar and Lim, 2003), and greater market monopoly (Ikeda and Doi, 1983; Lubatkin, 1983; Sharma and Ho, 2002). In reality, many firms may suffer a decrease in performance from an M&A activity, as companies face several obstacles which prevent such benefits from being properly executed (Chakrabarti, 1990; Fang et al., 2004; Ivancevich et al., 1987; Nahavandi and Malekzadeh, 1988; Schweiger and Denisi, 1991). Obstacles emerge at the level of people and process (Fang et al., 2004; Schweiger and Denisi, 1991). On one hand, increased formalization of resource allocation and other management decision areas adversely affect performance, and similar challenges emerge at the level of strategic capabilities (Chakrabarti, 1990). On the other hand, the human aspect of M&As is equally relevant (Ivancevich et al., 1987; Nahavandi and Malekzadeh, 1988). As the aborted merger between Telia (Swedish) and Telenor (Norwegian) shows, nationalistic sentiments and emotions embedded in employees can cause irreversible damages to cross-border investments (Fang et al., 2004). Indeed, even the managers involved in the M&A process cannot predict all the issues that are likely to emerge during the integration phase of the deal (Schoenberg, 2006; Slangen, 2006; Very and Schweiger, 2001). A review of works on accounting performance after an M&A has been provided in the papers by Zollo and Meier (2008), Papadakis and Thanos (2010), and Thanos and Papadakis (2012a,b). Thus, the question of post-M&A operating performance improvements has been addressed by many researchers over the last three decades (Healy et al., 1992; Papadakis and Thanos, 2010; Seth, 1990; Tuch and O'Sullivan, 2007; Zollo and Meier, 2008). Companies either experience negative or no gains from M&As and some studies indicate that acquirers can improve operating performance after M&As.

The extant literature revolves around M&As in the USA and UK and most recommendations for outcomes of M&As are based on the results using samples from these countries as either acquirers or targets. Thus, authors have suggested a need for more geographically diverse samples to overcome the UK and USA bias in the field of M&A studies (Papadakis and Thanos, 2010; Thanos and Papadakis, 2012a). Thanos and Papadakis (2012a) specifically suggest a need to look at emerging economies to understand whether the country of origin of acquirers has an impact on M&A performance. Our study contributes to the limited literature on the long-term performance of M&As in emerging markets by investigating whether M&As within ASEAN lead to improvements or deteriorations in operating performance (OP) of involved firms. Moreover, we investigate the relationship between changes in post-M&A performance and deal characteristics. Also, another important contribution of this paper is that it links the recent global crisis with the performance of M&As in the ASEAN region.

The rest of the paper is organized as follows. Section 2 presents the summary of relevant literature and develops testable hypotheses. Section 3 describes the data selection and employed methodologies. Section 4 summarizes the main results and examines the determinants of post-M&A performance. Section 5 concludes.

2. Literature review and hypotheses

Several authors have examined whether M&As can generate positive gains for merging firms. In order to answer this question, authors have developed several hypotheses to understand the underlying motivations for M&As (Caves, 1989; Gomes et al., 2013; Gugler et al., 2012, 2003). These hypotheses assume that the managers of the acquirer and target firms anticipate an improvement in profitability, market power, and firm growth. The extant research suggests that there are a number of reasons why an M&A could improve firm performance through synergies (Larsson and Finkelstein, 1999), economies of scope and scale (Pangarkar and Lim, 2003), and market monopoly (Ikeda and Doi, 1983; Sharma and Ho, 2002). Yet, firms involved in an M&A may suffer a decrease in performance due to difficulties at the people and process levels (Fang et al., 2004; Schweiger and Denisi, 1991). The past and extant literature on post-merger OP improvements indicates positive gains in some studies and negative or no gains in some other studies. Overall, extant evidence offers limited consensus on post-M&A performance improvements (Healy et al., 1992; Meglio and Risberg, 2010; Papadakis and Thanos, 2010; Schoenberg, 2006; Tuch and O'Sullivan, 2007). For a comprehensive review of the literature on M&A performance around the world, see for instance Haleblan et al. (2009a), Thanos and Papadakis (2012a,b) and Zollo and Meier (2008). A summary of findings from previous empirical studies and their relevant features is displayed in Table 1. Panel A reviews the literature on post-M&A OP in developed countries, which yields different results depending on the sample and methodology used. Sharma and Ho (2002) assert that the inconsistency in prior studies might be attributable to different measures used to capture changes in OP.

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