

THE EFFECT OF MERGERS AND ACQUISITIONS ON ABNORMAL RETURN: CASE STUDY OF 46 LISTED COMPANIES IN INDONESIA STOCK EXCHANGE (IDX) FROM 2010-2016

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This research aims to analyze whether there is a significant difference of abnormal returns due to the occurrence of mergers and acquisitions activity in which affect the wealth value of the shareholders and to determine the return of the shareholders after mergers and acquisition proportion is announced. In order to calculate the abnormal returns, this research uses two different approach; market model and market adjusted model. Event study methodology is used to determine the abnormal return using market model and market adjusted model over period 10 days before and 10 days after consummation of mergers and acquisitions. The result of this study shows that significant abnormal returns before and after mergers and acquisitions activity is not exist (accept H0). Furthermore, when proportion (mergers and acquisitions of more than 50% and less than 50% of target interests) is used to analyze the return for shareholders, the results show that mergers and acquisitions of more than 50% target interests generate positive return for shareholders of acquiring and target firms (reject H0). In mergers and acquisitions of less than 50% only accrue positive return for shareholders of acquiring firms (reject H0) while shareholders of target firms suffer negative return (accept H0).

Abstract



Mergers and Acquisitions, Event Study, Paired Sample T-Test, Abnormal Returns, Market Model, Market Adjusted Model.

I. INTRODUCTION

Mergers and acquisitions (from now on called M&A) for decades have become a vital role for companies to establish or achieve its financial strategies. Companies believe that merger and acquisition is a part of financial strategies to improve their financial performance. Furthermore, most companies pursue merger and acquisition activity to become the leading player in the product-market area of the strategic business unit. Merger and acquisitions keep arising around the world because they improve competition through attaining larger market share and minimizing business risks (Kemal, 2011).

The reason being that M&A have played an important role in the business environment emerging not only as a part of financial activity but also as part of investment strategy (Sugiarto, 2000). For that reason there is a lot of study and research was conducted regarding M&A towards shareholders' wealth. Many recent literatures and studies concentrated on shareholders returns, and undoubtedly the results are vary. Even though studies in this particular area shows a different results, most people think of M&A as a positive deed that could bring wealth and profitability to the shareholders and the company.

Most of the studies and scientific evidence conducted and were published in 90's using data from the current market at that time, it is now the right moment of a new analysis regarding shareholders wealth to expand the knowledge and gain a better understanding of M&A activity and its impact towards its shareholders from a modern perspective. Moreover, previous studies in this area is that the majority of studies focuses on observations and

cases from the US and Europe while the empirical evidence of M&A in a developing country such as Indonesia with emerging market is beyond question an absolute necessity.

II. LITERATURE REVIEW

II.1. THE BEHAVIOR OF MERGERS AND ACQUISITIONS

In a merger, two or more companies merge together and create a new company while the legal entities of one of the previous company(s) is or are terminated (Straub, 2007). In other words, merger is an absorption of two or more companies in which only one company (the acquirer) survives and has the right to retain its legal entity while the other (the target) goes out of existence (Gaughan, 2007).

In an acquisition, the acquirer buys another company (the target) which can manage the consistency of the acquirer's needs while the legal entities of the acquirer and the target company remain separated and not necessary be terminated (Roberts et al., 2012; Straub, 2007; & Malik et al., 2014). In addition, according to Krishnamurti & Vishwanath (2008) acquisition occurs when a company decided to purchase or acquire a substantial part of the asset, a division, or a voting shares of the target company. Henceforth, acquisitions is the purchase of an asset, a division, or even an entire company which opted out the termination of the target's legal entities that makes it separated entity from the acquirer but still remains under the ownership of the acquirer.

II.2. PRINCIPLE OF ABNORMAL RETURNS

It is a common knowledge among researcher for using event study to calculate and analyse abnormal returns in order to determine the effect of

M&A on shareholder's wealth. Many determinants are considered as the influential characteristic to the occurrence of the abnormal returns on shareholder's wealth. The most common determinants in this specific area of literatures are firm characteristic and deal characteristic.

For firm characteristic, Braggion, Dwarkasing & Moore (2012) did a cross-sectional analysis of acquirer's and target's abnormal returns. Even though their study focused on the U.K. banking sector, their findings suggest that the lower the target's return on equity, the higher the acquirer's abnormal return.

Sugiarto (2000) found that the ownership proportion of M&A becomes deciding factor which influences the occurrence of abnormal returns. His findings indicate that shareholders of target firms, whether it is M&A of more than 50% or less than 50% ownership, will cause zero to negative abnormal returns once the merger outcome is known. On the other hand, Braggion et al. (2012) found opposite results and shows that the ownership proportion is not very crucial in M&A activity.

III. RESEARCH METHODOLOGY

This study is considered as event study methodology where it will determine whether there is a changes in share price regarding a particular event. The event time $t=0$ is the day when the stock return movements of acquiring firms affected by the changes of new market information as a result of the following merger's outcome. The duration of event window in this thesis is from 10 days prior to M&A consummation to 10 days after the consummation.

From 257 M&A activities that occurred in Indonesia from 2010-2016, 46 M&A activities were taken from the actual sample consisting 35 acquiring firms and 11 target firms.

Type of data collected are considered as quantitative data or known as numeric data. Quantitative data that will be collected are the stock's return and market index return from listed companies that will be assessed in this thesis. The collection method are secondary data because this thesis collects existing company's stock price and return from IDX database.

IV. RESULTS AND DISCUSSION

IV.1. DESCRIPTIVE STATISTICAL ANALYSIS

The descriptive statistical analysis for company's return of 46 companies listed in Indonesia Stock Exchange (IDX) shown in tables below. Statistical analysis is broken down into two categories, first for acquiring firms and second for target firms. All information such as average values (mean), cumulative average return (CAR), minimum and maximum values, and standard deviation are presented in the results.

IV.1.1. ACQUIRING FIRMS

Table 4.1. Descriptive statistical analysis of acquiring firms

	2010	2011	2012	2013	2014	2015	2016
N	2	6	4	9	10	2	2
Mean	-0.029	-0.002	0.001	-0.001	0.0001	0.002	0.003
CAR	-0.060	0.111	0.296	-0.172	0.025	0.574	0.813
Std. Deviation	0.005	0.006	0.001	0.001	0.001	0.004	0.005
Minimum	-0.006	-0.013	0.0001	-0.002	-0.002	-0.001	-0.0005
Maximum	0.002	0.002	0.003	0.001	0.002	0.005	0.006

IV.1.2. TARGET FIRMS

Table 4.2. Descriptive statistical analysis of target firms

	2011-2012	2013-2014	2015-2016
N	3	5	3
Mean	-0.001	0.002	0.002
CAR	-0.313	0.456	0.489
Std. Deviation	0.002	0.004	0.001
Minimum	-0.004	-0.001	0.0002
Maximum	0.0004	0.008	0.003

IV.2. THE ABNORMAL RETURN BEFORE AND AFTER M&A CONSUMMATION

The point of this thesis is whether the M&A activity in Indonesia results in changes in share price of both acquiring and target firms. Correspondingly, the changes in share price become the determinant on which such activity will return a capital gain or capital loss for the shareholders.

IV.2.1. COMPARISON OF TWO MODELS

The comparison of the two models used in this thesis is being investigated further, those two models are market model and market adjusted model. The two models however able to determine the abnormal returns for the shareholders of acquiring firms and target firms.

IV.2.1.1. THE ACQUIRER'S ABNORMAL RETURNS

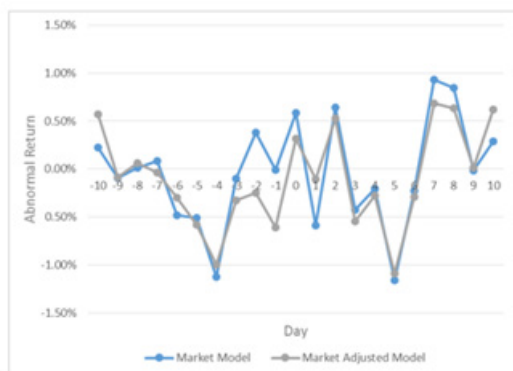


Figure 4.5. Comparison of abnormal return of acquiring firms using market model and market adjusted model

The graph shows that market model moves in similar pattern as market adjusted model. The difference in the pattern is almost nonexistent. On the day before consummation ($t = -1$), the abnormal return for market model generates positive return whereas for market adjusted model shows a negative return.

Furthermore, the abnormal return on the day of consummation ($t=0$) is also different

where market model presents a higher abnormal return than the market adjusted model. However, on $t = 1$ it shows that market adjusted model generates positive return, differ from market model which generates negative return. Nevertheless, in general, the market model demonstrates a slightly better returns for shareholders compare to the market adjusted model.

Table 4.12. The various cumulative abnormal return of acquiring firms using market model and market adjusted model ($n = 35$)

Day	Market Model	Market Adjusted Model
-10 to -1	-1.62%	-2.55%
-1 to 0	0.58%	-0.29%
0 to 1	0.00%	0.21%
1 to 10	0.09%	0.17%

When cumulative abnormal return is taken into account, market model and market adjusted model will have a significant difference. From period $t = -10$ to $t = -1$, market model has a negative return of 1.62%, and market adjusted model has an even lower return of -2.55%. Furthermore, one day prior to consummation ($t = -1$ to $t = 0$), market model generates positive return of 0.58%, differ from market adjusted model with a return of -0.29%.

However, the cumulative abnormal return after the consummation shows an opposite result. From period $t = 0$ to $t = 1$, market adjusted model generates more return than the market model, with 0.21% where market model generates zero return. Besides, when the period measurement is $t = 1$ to $t = 10$, the cumulative abnormal return for market adjusted model is 0.17%, which in fact is higher than market model at 0.09%.

IV.2.1.2. THE TARGET'S ABNORMAL RETURN

Based on figure 4.6., the movement of abnormal return for target firms using both market model and market adjusted model similar to each other. Both models almost move altogether in similar direction and

pattern. The abnormal returns from both models rises and falls from ten days to two days prior to consummation ($t = -10$ to $t = -2$). From $t = -1$, however, the both models are able to maintain positive returns for at least five days after consummation ($t = 0$ to $t = 5$) before plunge into negative level in $t = 6$.



Figure 4.6. Comparison of abnormal return of target firms using market model and market adjusted model

Before the consummation day, however, the table shows a better result of cumulative abnormal return for market model with -1.98% for period $t = -10$ to $t = -1$, and 2.05% for period $t = -1$ to $t = 0$, which are slightly better compare to market adjusted model who produces cumulative abnormal return of -2.04% and 1.47%, respectively.

In order to support the previous statement that market adjusted model generates higher return than market model, the cumulative abnormal return shown in table 4.14. clearly display a better cumulative for market adjusted model after the consummation. On period $t = 0$ to $t = 1$, market model produces 0.45% cumulative abnormal return, while market model generates 2.40%. For period $t = 1$ to $t = 10$, market model has 1.85% cumulative return while market adjusted model has 3.47%.

Table 4.14. The various cumulative abnormal return of target firms using market model and market adjusted model ($n = 11$)

Day	Market Model	Market Adjusted model
-10 to -1	-1.98%	-2.04%
-1 to 0	2.05%	1.47%
0 to 1	0.45%	2.40%
1 to 10	1.85%	3.47%

IV.2.2. ABNORMAL RETURNS BETWEEN ACQUIRING AND TARGET FIRMS

The comparison of abnormal returns between acquiring and target firms to analyze which firm gain the higher return due to the occurrence of M&A activity will be discussed further using market model and market adjusted model.

IV.2.3.1. MARKET MODEL (MM)

Figure 4.7. display the movement of abnormal returns for acquiring and target firms in 20-day measurement. It shows that acquiring firms tend to move in-between negative and positive levels ten days before the consummation ($t = -10$ to $t = -1$) and able to hold stable position on that period. Meanwhile, target firms experience a significant increase as well as significant decrease on the same period. In general, from $t = -10$ to $t = -1$, acquiring firms have a stable movement compare to the target.

However, after consummation, abnormal return of acquiring firms is fluctuate significantly for a certain period of time in positive and negative levels. Even though the target also experience a fluctuation after $t = 0$, but the target able to maintain its return afloat in positive level for a certain period of time. On the day of consummation, both acquiring and target obtain a positive return, even though for acquiring firms the return is not high as the target.

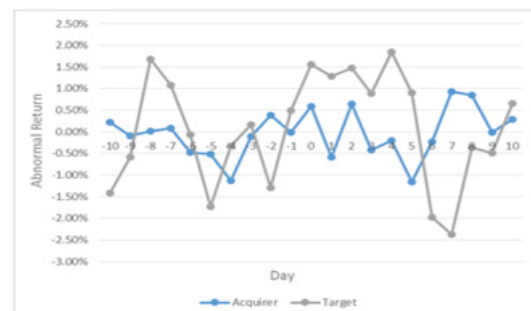


Figure 4.7. Comparison of abnormal return between acquiring and target firms using market model

The data in table 4.16. indicates that the cumulative abnormal return for acquiring firms is higher than target firms from ten days to one day prior to the M&A consummation ($t = -10$ to $t = -1$) but fail to generate return on the day surrounding the consummation as its return equals to zero percentage. Based on the table, for period $t = -1$ to $t = 0$, the cumulative return of target firms at 2.05% is higher than acquiring firms.

The same goes for period after consummation ($t = 1$ to $t = 10$), once again the cumulative return of target firms is outperform the cumulative return of acquiring firms, whereas the values of both returns are 1.85% and 0.09% respectively. These findings imply that on the occurrence of mergers and acquisitions, the target's shareholders obtain more benefits than the acquirer's shareholders, which again, is consistent with previous researches in different markets.

Table 4.16. The various cumulative abnormal return of acquiring and target firms using market model ($n = 35$ for acquiring and $n = 11$ for target)

Day	Acquirer	Target
-10 to -1	-1.62%	-1.98%
-1 to 0	0.58%	2.05%
0 to 1	0.00%	0.45%
1 to 10	0.09%	1.85%

IV.2.3.1. MARKET ADJUSTED MODEL (MAM)

The movement of abnormal returns of acquiring and target firms shown in figure 4.8. where it can be seen that before the M&A consummation, abnormal return of acquiring firms is fluctuate normally compare to abnormal return of bidding firms where it increase and decrease drastically. However, on $t = 0$ the target able to generate higher return than the acquirer. After the consummation, the acquirer's abnormal return fluctuates in-between positive and negative levels

whilst the target able to maintain its return above positive line but eventually drop drastically on $t = 6$.

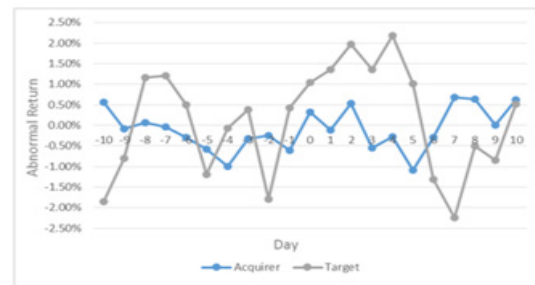


Figure 4.8. Comparison of abnormal return between acquiring and target firms using market adjusted model

The cumulative abnormal return of acquiring and target firms can be seen in table 4.18., even before the consummation ($t = -10$ to $t = -1$) the acquiring firms have a lower return compare to target firms. The cumulative returns for acquiring and target firms for period $t = -10$ to $t = -1$ are -2.55% and -2.04%. On the day surrounding the consummation of M&A ($t = -1$ to $t = 0$), the target cumulative return is even higher than the acquiring firms cumulative return of 1.47% and -0.29%. The same goes for period one day after consummation ($t = 0$ to $t = 1$), acquiring firms have a cumulative return of 0.21% while target firms able to generate 2.40% cumulative return. For period $t = 1$ to $t = 10$ the gap is even larger. Acquiring firms have 0.17% and target firms have 3.47% of cumulative return.

Although the cumulative abnormal return of both firms is higher after the M&A consummation. The higher return of target's cumulative return indicates that M&A activity drives up the wealth of the shareholders of the target firms more than the acquiring's shareholders.

Table 4.18. The various cumulative abnormal return of acquiring and target firms using market adjusted model ($n = 35$ for acquiring and $n = 11$ for target)

Day	Acquirer	Target
-10 to -1	-2.55%	-2.04%
-1 to 0	-0.29%	1.47%
0 to 1	0.21%	2.40%
1 to 10	0.17%	3.47%

IV.2.3. HYPOTHESIS TESTING

IV.2.3.1. ACQUIRING FIRMS

Table 4.21. Paired sample test of acquiring Firms (Market model and Market adjusted model)

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 A_MAM_Before - A_MAM_After	-.0027237	.0085426	.0027014	-.0083348	.0033873	-1.008	9	.340
Pair 2 A_MAM_Before - A_MAM_After	-.0017053	.0088859	.0028100	-.0080619	.0046513	-.607	9	.559

Source: Author

Results of paired sample test of acquiring firms are as follows:

1. The Sig.(p-value) of market model 10 days before and 10 days after M&A is .559
2. The Sig.(p-value) of market adjusted model 10 days before and 10 days after M&A is .340

The results for both market model and market adjusted model are >0.05 (significance level), which means H_0 is accepted and confirm the statement that there is no significant positive change in abnormal return pre and post-M&A activity for acquiring firms.

IV.2.3.2. TARGET FIRMS

Table 4.24. Paired sample test of target firms (Market model and Market adjusted model)

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error	95% Confidence Interval of the Difference				
				Mean	Lower			
Pair 1: T_MAM_Before - T_MAM_After	-.0055080	.0158382	.0050085	-.0168379	.0058219	-1.100	9	.300
Pair 2: T_MAM_Before - T_MAM_After	-.0038290	.0139111	.0043991	-.0137804	.0061224	-.870	9	.407

Results of paired sample test of target firms are as follows:

1. The Sig.(p-value) of market model 10 days before and 10 days after M&A is .407
2. The Sig.(p-value) of market adjusted model 10 days before and 10 days after M&A is .300

The results for both market model and market adjusted model are >0.05 (significance level), which means H_0 is accepted and confirm the statement that there is no significant positive change in abnormal return pre and post-M&A activity for target firms.

IV.3. THE ABNORMAL RETURNS FOR M&A OF MORE THAN 50%

In order to deepen the understanding of mergers and acquisitions activity on shareholders return, and to assess whether there is a negative return that could affect shareholder's wealth when acquisition proportion is taken into account, this thesis separate M&A activities between proportion of M&A more than 50% target interests and M&A less than 50% target interests.

The following findings are the estimation of M&A activities for acquisition more than 50%. The day of the M&A consummation will be addressed as day = 0 or $t = 0$, and the measurement period of abnormal returns will have a period 10 days after the consummation ($t = 0$ to $t = 10$), because the effect of M&A proportion can be seen only after the proportion of M&A is announced.

IV.3.1. MARKET MODEL (MM)

When the M&A known to be more than 50%, both firms earn a positive returns. The shareholders of target firms earn a better abnormal return compare to shareholders of acquiring firms. Henceforth, when M&A takes ownership of more than 50%, it can be considered as a good news for the shareholders of acquiring and target firms.

It can be seen that target firms clearly outperform acquiring firms during the 10-day measurement period. The movement of acquiring firms fluctuates around zero

line with no significant increase nor decrease. Compare to the movement of target firms, it fluctuates significantly during 10-day period measurement. The significant difference can be seen on $t = 4$ in the graph. Even though acquiring firms more likely to have a stable abnormal return movement, they do not generate better return than the target firms.

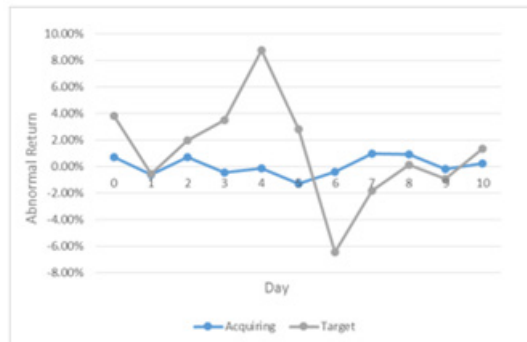


Figure 4.11. Abnormal return of acquiring and target firms for acquisition of more than 50% (Market model)

IV.3.2. MARKET ADJUSTED MODEL (MAM)

Figure 4.12. shows that acquiring and target both have a positive return when the merger is announced to have more than 50% ownership for the acquirer. This implies that the proportion of M&A more than 50% can be seen as a positive gesture which favor the shareholders of both firms.

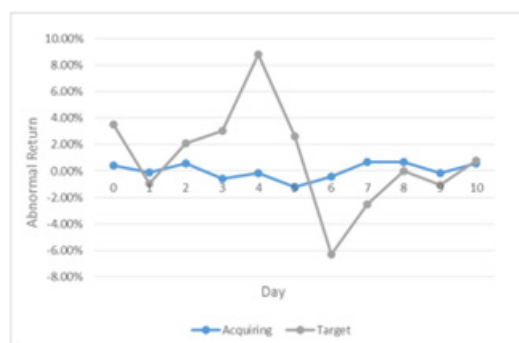


Figure 4.12. Abnormal return of acquiring and target firms for acquisition of more than 50% (Market adjusted model)

During the 10-day measurement, acquiring firms move between negative and positive lines in which tend to keep a stable

position for ten days. On the other hand, abnormal return of target firms seems to fluctuate significantly, moving ups and downs without pattern during the period measurement. Nevertheless, the graph for target firms indicates that abnormal return for target firms is apparently higher than acquiring firms.

IV.3.3. SUMMARY

The data shown in table 4.29. is the cumulative abnormal returns for acquiring and target firms after the proportion of M&A activity of more than 50% is announced ($t = 0$ to $t = 10$). In merger of more than 50%, acquiring firms shown in steady position, because the acquiring firms only generates close to zero positive return in both market model and market adjusted model. Meanwhile, with the same condition, target firms generate high amount of return in M&A of more than 50%, and put them in “better off” position.

Based on the table, H_0 is rejected for acquiring and target firms and deny the statement that positive cumulative abnormal return post-M&A of more than 50% target interests is not exist.

Table 4.29. Cumulative abnormal return for acquiring and target firms (for M&A of more than 50%)

CAR	Market Model	Market Adjusted Model	Overall
Acquirer	0.45%	0.31%	Steady
Target	12.45%	10.13%	Better off

Nevertheless, despite being in a less-profitable side, it must be stated that in the end, when it comes to mergers and acquisitions activities of more than 50%, the acquiring firms eventually will face potential benefits in the future since they are the one who are in control of target firms.

IV.4. THE ABNORMAL RETURNS FOR M&A OF LESS THAN 50%

IV.4.1. MARKET MODEL (MM)

Figure 4.15. shows the movement of abnormal returns of acquiring and target firms. When the M&A known to be less than 50%, acquiring firms tend to get negative returns while target firms earn positive return on the day of consummation or $t = 0$. Given the circumstance above, the shareholders of target firms clearly earn a better abnormal return compare to shareholders of acquiring firms.

However, when the 10-day measurement period is included, it appears that the acquiring firms outperform the target firms. The movement of acquiring firms fluctuates around zero line with no significant increase nor decrease until $t = 5$ where the returns slowly ascending. Compare to the movement of target firms, it fluctuates significantly from positive level to negative level during 10-day period measurement and the return itself mostly spend in negative level.



Figure 4.15. Abnormal return of acquiring and target firms for acquisition of less than 50% (Market model)

IV.4.2. MARKET ADJUSTED MODEL

The graph presented in figure 4.16. shows that acquiring firms have negative return when the M&A is announced to have less than 50% ownership, and target firms

have a positive return when the merger is announced to have less than 50% ownership. This implies that on the day the proportion of M&A less than 50% is announced, it can be seen as a positive gesture which favor the shareholders of target firms but not the shareholders of acquiring firms.

Furthermore, the graph also shows during the 10-day measurement, acquiring firms mostly move in negative line from $t = 0$ to $t = 5$, but fortunately able to maintain its position in positive line from $t = 6$. On the other hand, abnormal return of target firms tends to have negative trend during period measurement, moving ups and downs without pattern until $t = 5$ when the returns leveling off in negative line.



Figure 4.16. Abnormal return of acquiring and target firms for acquisition of less than 50% (Market adjusted model)

IV.4.3. SUMMARY

Table 4.34. shows the cumulative abnormal return pre and post-M&A of less than 50% target interests. The table indicates that in M&A of less than 50%, using market model and market adjusted model, acquiring firms gain a positive return and in “better off” position, unlike target firms, where they gain negative return and in “worse off” position. Therefore, the shareholders of acquiring firms are better off when they takeover less than 50% of target’s interests while target firms suffer negative return from M&A of less than 50%.

From what is depicted in the table, H0 can be rejected for acquiring firms and deny the statement that positive cumulative abnormal return post-M&A of less than 50% target interests is not exist. However, for target firms, accept H0 and confirm the statement that positive cumulative abnormal return post-M&A of less than 50% target interests is not exist

Table 4.34. Cumulative abnormal return for acquiring and target firms (for M&A of more than 50%)

CAR	Market Model	Market Adjusted Model	Overall
Acquirer	2.39%	1.89%	Better off
Target	-3.62%	-1.19%	Worse off

V. CONCLUSIONS AND RECOMMENDATIONS

V.1. CONCLUSIONS

This thesis used event study methodology to examine the profitability of merger and acquisition activity on shareholders under different circumstances, with expectation that the stock price would adjust correctly to new significant information relating to security. Henceforth, in this case, the stock price would change somehow to reflect any gains or losses from M&A activity and the market would incorporate the new information. Moreover, based on the event study methodology and paired sample test in the previous chapter, the conclusions of this particular subject are as follows:

1. Abnormal return of shareholders of acquiring and target firms shows a positive return on the day the M&A consummation takes place, this indicates the good impact surrounding the M&A consummation. However, abnormal return pre-M&A activity shows no significant change compare to post-M&A activity. The results of significance test shows that both abnormal return of acquiring and target firms under market

model and market adjusted model are greater than 0.05 (significance level). Hence, the decision is to accept H0 and confirm the statement that there is no significant changes pre and post-mergers and acquisitions activity.

2. Abnormal return on the day of mergers and acquisitions of more than 50% shows a positive return for shareholders of acquiring and target firms. Although the abnormal return for target firms is higher than the acquirer, both firms show a positive impact regarding mergers and acquisitions activity. Furthermore, cumulative abnormal return also show a positive return for both firms following the consummation of M&A, but then again, shareholders of target firms gain a larger return than the shareholders of acquiring firms. Based on the findings, it can be concluded that M&A of more than 50% of target interests can be considered as a non-wealth reducing event for shareholders of acquiring and target firms.

3. For merger and acquisition activity of less than 50%, shows a better return for the acquiring shareholders compare to target shareholders. The cumulative abnormal return for acquiring firms indicates a positive impact in regard of merger and acquisition activity of less than 50% of target interests. On the other hand, the negative return can be experienced by target shareholders in short-term period if the M&A is less than 50%. Therefore, the decision is to reject H0 and deny the statement that positive cumulative abnormal return in M&A less than 50% is not exist for acquiring firms, while the decision for target firms is to accept H0 and confirm the statement which states positive cumulative abnormal return in M&A of less than 50% is not exist, hence, such activity can be considered as a non-wealth reducing event.

V.2. RECOMMENDATIONS

The wealth effect of mergers and acquisitions for the shareholders of acquiring and target firms probably is the most important issue in the study of M&A, regardless of the motives behind this activity. The findings from the previous chapter show, that activity of M&A, create wealth effect for target firms in which they enjoy a large gain following the result of M&A in a short term period. However, the shareholders of acquiring firms do not enjoy a large gain for this activity compare to shareholders of target firms. Most of the acquiring firms experience a small gain from M&A activity, or experience break-even, and in some cases they suffer negative return. When the proportion is taken into account, despite of acquisition of more than 50% or less than 50%, the shareholders of acquiring firms will not suffer any abnormal losses. Nevertheless, it must be stated that there is no significant abnormal return shown in M&A activity, which can be concluded that the occurrence of M&A activity does not give a significant impact on the value of the firm, as well as its shareholders.

These results implicate that M&A activity is not a risky investment for shareholders of the acquiring firms. If a company decide to acquire other company, one thing to be noted is that the M&A of less than 50% will earn greater abnormal return than M&A of more than 50%. While the main objective of M&A such as acquiring technological skill, increasing market share, or gaining economies of scale is achieved regardless of the proportion, the abnormal profit or loss from that activity could be considered as the 'side effect' of M&A activity. Both M&A proportion and scheme is probable for the shareholders of acquiring firms and should not be overlooked as it represents a profit of opportunity.

For shareholders of target firms, the results show that M&A activity is beneficial for them only around the announcement date. Generally speaking, shareholders of target firms will gain a slightly better abnormal return from the takeover strategy. When M&A proportion is included, it is far better for shareholders of target firms of acquisition more than 50% compare to acquisition of less than 50% which experience a negative abnormal return. Therefore, it is necessary for shareholders of target firms to take a careful consideration when acquiring firms offer merger proposal. Because M&A of more than 50% eventually will yield numerous amount of positive abnormal return, it is better for the shareholders to capture and capitalized the capital gain around merger consummation. On the other hand, M&A of less than 50% does not bring any good news for the shareholders since it has abnormal loss in short-term period, and maybe the best thing to do is to postpone the capitalization until the abnormal return is better off.

As for short-term investors, or known as traders, it is better for them to invest in acquiring firms of M&A less than 50% and target firms of M&A more than 50% shortly after the M&A consummation is announced then capture and capitalize the investment a few days after, since the cumulative abnormal return on both scenario shows a positive return.

This thesis uses short-term period measurement to find the significance movement of abnormal return before and after the M&A activity takes place. Whether medium and long-term period of M&A produce similar results as the short-term measurement is still unknown, and this area of study needs to be investigated for further understanding. In addition, another important question which needs

to be addressed in the future is the failure of target firms of M&A less than 50% to yield any capital gain, whether there is a transfer of wealth from the shareholders of target firms to shareholders of acquiring firms in this case is the main question.

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