

# **PATTERNS OF AMALGAMATION IN CROSS-BORDER MERGERS AND ACQUISITIONS: EVIDENCE FROM MALAYSIAN MULTINATIONAL FIRMS**

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## **Abstract**

Many studies in cross-border mergers and acquisitions (M&A) involve variety of management disciplines such as finance, accounting, business and human resource. However, an in-depth study in patterns and tendencies of cross-border M&A integration particularly in Malaysia is neglected and nearly no study has ever discussed Malaysian M&A integration trends particularly after the South East Asia financial turmoil 1997-1999. Thus, this study attempts to explore this phenomenon especially to identify the background of Malaysian industries that involved in cross-border M&A. Interestingly, this paper also reveals the integration trends involved when engaging in cross-border M&A. A survey was used using Thomson One Banker as the main database which covered completed Malaysian M&A cases. Results show that engineering, software and telecommunication industries are among the leading industries engaged in cross-border M&A. In terms of nationality of the acquired firms, Indonesia, Thailand and Singapore are among favourites to Malaysian acquirers. In fact, the study exposed a positive development of cross-border M&A which demonstrate higher success compared to failures.

## **1 Introduction**

In brief, M&A can be defined separately; mergers is a combination of assets of two previously separate firms into a single new legal entity whereas acquisition is the control of assets is transferred from one company to another (Ghauri & Buckley, 2003). However, according to United Nations (2000), the number of mergers are relatively low therefore for practical purposes M&A should also reflects 'acquisitions'. Furthermore, M&A can be categorised into three main pillars: horizontal, vertical and conglomerate. However, M&A is divided into two main levels: domestic M&A and cross-border M&As.

Subsequently, in this particular paper, cross-border M&A is the main discussion where we attempt to reveal several evidences about the amalgamation of companies between Malaysia and the rest of other nations. In addition we will look at the patterns of amalgamation particularly to identify which categories of the main pillars and types of M&A that Malaysian firms have engaged. Accordingly, the structure of the paper is presented by firstly to discuss about previous studies in cross-border M&A. Secondly the paper will explain in terms of the research methodology that applied in this research. Finally, this paper will present the findings and conclude the amalgamation patterns among Malaysian firms that employed cross-border M&A.

## **2 Cross-Border Mergers and Acquisitions**

The increasing trend of cross-border or international M&A has been motivated by a variety of strategic considerations, which normally differ from purely domestic M&A. Compared to domestic M&A, cross-border M&A has more challenges in increasing the firms' value and wealth because it involves different environments, cultures, policies and procedures. According to Zaheer (1995) companies engaging in cross-border M&A are facing unique risks, such as 'liability of foreignness and double-layered acculturation'. It means differences in national culture, customer preferences, business practices and institutional forces, such as government regulations. All these then, can pose major problems to companies in realizing fully, their strategic objectives.

Historically, research on international expansion of firms were focused primarily on the decision to export, versus the use of FDI (Fladmoe-Lindquist, 1996). For instance, business expansion via cross-border M&A is popular among the multinational companies. It is also known as an agronomic business expansion. In addition to this, Gaughan (2002) points out in his book that expansion is one of the most common motives for merger and acquisition. He discusses further that international M&A can be a quicker way to expand than internal expansion. However, business through cross-border M&As are more complex, owing to differences in political and economic environment, corporate organization, culture, tradition, tax rules, law and accounting rules between the countries of the acquirer and the target firm (Sudarsanam, 2003).

Furthermore, Shimizu et al. (2004) noted that the entry mode via cross-border M&As can be used to access new and lucrative markets, as well as expand the market for a firm's current goods. In addition, firms are able to expand their capabilities as well as their networking while using the acquired firms' resources. He further stressed that basically, the choice of a cross-border M&A as a mode of entry into foreign market is often influenced by; 1) firm-level factors such as multinational experience, local experience, product diversity, and international strategy; 2) industry-level factors such as technological intensity, advertising intensity and sale force intensity and 3) country-level factors such as market growth in the host country, cultural idiosyncrasies between home and host countries and the

specific culture of the acquiring firm's home country (uncertainty avoidance and risk propensity) (Shimizu et al., 2004)

Meanwhile, another valuable finding from cross-border M&A is the motives behind the deals. Hopkins et al. (1999) explains that basically there are four distinct but related motives: strategic, market, economic and personal. Among these motives, market motive shows the most significant to this study, whereby M&A is used as an alternative to enter new markets in new countries. Most of all, it discusses using M&A as a very quick and sound way to gain a strong position or at least at par with the local market leader. For example, in 1997, Mutiara Telecommunication was acquired by Digi.Com, which was owned by Digi Swiss.Com. Today, based on the number of subscribers, they are the third largest cellular telecommunication network service provider in Malaysia (Prathaban, 2006).

In Malaysia particularly, the applications of M&A were chaotic in 1999, when the banking industries were urged by the Malaysian Central Bank to integrate and combine into only six major groups (Shanmugam & Nair, 2003). These banks were to be known as the "anchor banks". It was believed that this strategy was a preparation for local banks to face the liberalization in banking industries, specifically with the emergence of Asia Free Trade Area (AFTA). These manoeuvres were leapfrog for them to use M&A to cross national boundaries. The best example was when Maybank one of the leading banks in Malaysia legally owned 93.92% of PT Bank Maybank Indocorp in Indonesia (Abidin, 2008).

In fact, the Malaysian government recognized the cross-border M&A as one of the tools in GLCs (government-linked companies) transformation plan, that is known as cross border expansion and diversification (Barrock, 2006). For instance, Telekom Malaysia Berhad (TM) and Maxis communication Berhad, two local telecommunication companies, have ventured abroad by using M&A to acquire firms in India and Indonesia (Jayaseelan, 2006). In Indonesia, Maxis owns PT Natrindo Telepon Seluler, while TM has taken over PT Excelcomindo. Meanwhile, in India, Maxis acquired Aircel and TM acquired Spice. Latest development of cross-border M&A integration was executed between CIMB and Manila-based Bank of Commerce for RM881 million (Ahsan, 2012).

Despite the substantial development of this M&As phenomenon, many of the cross-border M&A studies are generally fragmented (Larsson & Finkelstein, 1999; Shimizu et al., 2004), scattered (Kish & Vasconcellos, 1993) and depends on industry (Hopkins, Chaganti, & Kotabe, 1999) and primarily has been neglected in particularly in revealing the patterns and trends of cross-border with exception of study conducted by Ali M. Metwalli & Tang (2002). Therefore, this study is timely and relevance to help improving Malaysian firms in cross-border M&A strategy.

### **3 Methodology**

Survey methodology was used to collect the data in 2008. The study then look at various number of cross-border M&A transactions undertaken by the Malaysian firms, within a period of seven years (2000-2006). This seven year period (2000-2006) was chosen because it was a comeback period for the South East Asia Countries especially Malaysia, Thailand and Indonesia from the Asia financial turmoil of 1997-1999 (United Nations, 2000). The M&A cases were gathered from Thomson One Banker database. We also confirmed the selected M&A cases with local Stock exchange agencies: Securities Commission and Bursa Malaysia. Minimum value of the cross border transaction was stated as at least US\$ 1 million, which is lower compared to the range that was proposed by Kogut and Singh (1988) which was US\$10 million. The rational being the currency and the strength of firms involved in countries like Malaysia was not that high and most of the transaction values

were also lower compared to firms who acted as an acquirer in developed countries. This is also in line with the transaction value reported by Securities Commission Malaysia as most of the values less than US\$1 million are cases that usually acquired by internal shareholders and most likely no transaction involving departmental integration particularly in cross-border M&A.

Furthermore, if we adapt US\$10 million, the number of cross-border M&A cases in Malaysia will be less and tendency to obtain higher response rate is also less. On the other hand, if we do not restrict the minimum level of M&A transaction to US\$1 million, we are exposing too many M&A cases that are not involve in departmental integration such as the marketing integration. Here then, we only choose firms that act as acquiring firms. The study also does not restrict the sample to any sector or specific industry background.

Out of 1697 M&A cases that were listed in Thomson One Banker, we identified 250 cases in Malaysia that were involved in cross-border M&A. Then, we streamlined the cases according to M&A transactions that were above US\$1 Million. As a result, we identified 131 cases for Malaysia. Out of this figure, we managed to collect 97 responses. However, three incomplete responses were discarded which eventually ended with 94 responses which was equivalent to nearly 70% response rate. This response rate is consider high due to several reasons: multi-follow up method was applied following tailored design method by (Dilman, 2007). The most useful collection method was through email attachment followed by collecting them in person. As usual, the mail survey results were not that favourably answered by the respondents, though we had supplemented additional questionnaires to encourage the respondents to participate.

## **4 Results**

### **4.1 Industry Background**

In this study, we conducted a multiple rather than single-industry survey. The rationale for this approach was that, there have been fewer cases of cross-border M&A in Malaysia compared to developed countries such as the United States of America and European countries. In fact, many recent M&A studies have employed a multiple-industry approach (Cording, Christmann, & King, 2008; Homburg & Bucerius, 2005; Richey, Kiessling, Tokman, & Dalela, 2008). The industries involved were obtained using an ordinal scale, which allowed the respondents to identify their particular industry easily.

Altogether, 16 groups were specified in the questionnaire along with a separate group titled 'other industry'. 'Other industry' is crucial as quite a few of the respondents who were not related to the 15 named groups used this option. The industries involved in the survey, including those marked 'other industry' are presented in Table 1. Overall, there were 40 industries including missing data. These industries classification was also used by other researchers that pursued in M&A studies (Cording et al., 2008; Homburg & Bucerius, 2005; Richey et al., 2008). This method is suitable as not many cases are involved and it also serves to highlight each industry in detail. We also specify the actual sample data (cases) that were involved in the survey. This is crucial as we can see the pattern of which industries really contributed to the study. We received 94 useable questionnaires which also include three which were missing data. These firms are believed to engage in electronics, other financial services and software. The industries of the surveys which had missing data were identified according to the respondent's email addresses, which were provided at the end of the questionnaire.

**Table1: Distribution of Collected Cases in Industry**

| Industry                      | Number of Cases | None Response Cases | Missing / Incomplete | Collected Cases |
|-------------------------------|-----------------|---------------------|----------------------|-----------------|
| Automotive                    | 6               | 2                   |                      | 4               |
| Brokerage and commodity       | 4               | 1                   |                      | 3               |
| Computing and Wireless        | 5               | 3                   |                      | 2               |
| Construction                  | 5               |                     |                      | 5               |
| Construction Materials        | 2               | 1                   |                      | 1               |
| Chemical                      | 3               | 2                   |                      | 1               |
| Clothing                      | 5               | 3                   |                      | 2               |
| Consulting                    | 3               | 1                   |                      | 2               |
| Property Developer            | 1               |                     |                      | 1               |
| Electronics                   | 7               | 0                   | 1                    | 6               |
| Engineering                   | 7               | 2                   |                      | 5               |
| Food and Beverages            | 6               | 2                   |                      | 4               |
| Other Financial services      | 6               | 4                   | 1                    | 1               |
| Furniture                     | 1               |                     |                      | 1               |
| Healthcare Equipment          | 2               |                     |                      | 2               |
| Health Products               | 1               |                     |                      | 1               |
| High Technology               | 1               |                     |                      | 1               |
| Hotel Services                | 1               |                     |                      | 1               |
| Household and consumers       | 3               | 1                   |                      | 2               |
| Investment Banks              | 2               |                     |                      | 2               |
| Insurance                     | 3               | 1                   |                      | 2               |
| Machinery                     | 6               | 5                   |                      | 1               |
| Manufacturing                 | 5               | 2                   |                      | 3               |
| Manufacturing Equipments      | 2               | 1                   |                      | 1               |
| Media Broadcasts              | 1               |                     |                      | 1               |
| Metal and Mining              | 3               | 1                   |                      | 2               |
| Oil & Gas Products            | 3               |                     |                      | 3               |
| Publishing and Advertising    | 1               |                     |                      | 1               |
| Petrochemical                 | 2               |                     |                      | 2               |
| Packaging                     | 1               |                     |                      | 1               |
| Plantation and Agribusiness   | 6               | 2                   |                      | 4               |
| Pharmaceuticals               | 3               | 1                   |                      | 2               |
| Retail Banking                | 2               |                     |                      | 2               |
| Retailing                     | 1               |                     |                      | 1               |
| Software                      | 8               | 1                   | 1                    | 6               |
| Transportation and logistics  | 2               |                     |                      | 2               |
| Telecommunications            | 7               | 1                   |                      | 6               |
| Trading and Wholesale         | 2               |                     |                      | 2               |
| Utilities and Infrastructure  | 2               |                     |                      | 2               |
| Missing                       | 3               |                     |                      | 3               |
| <b>Total Industry (cases)</b> | <b>134</b>      | <b>37</b>           | <b>3</b>             | <b>94</b>       |

#### 4.2 Country of Origin of the Acquired Firm

Table 2 demonstrates the distribution of country of origin of the acquired firms involved in the cross-border M&As engaged by the Malaysian firms. According to the results, the largest country was Indonesia firms (17 cases) that had been acquired by Malaysian firms. In fact, the table 2 shows four other countries that also featured highly, China (10 cases), India (9 cases), Singapore (13 cases) and Thailand (14 cases). All of these countries are among the favourite countries for Malaysian firms to penetrate through the cross-border M&A strategy. Overall 20 countries were involved in the study.

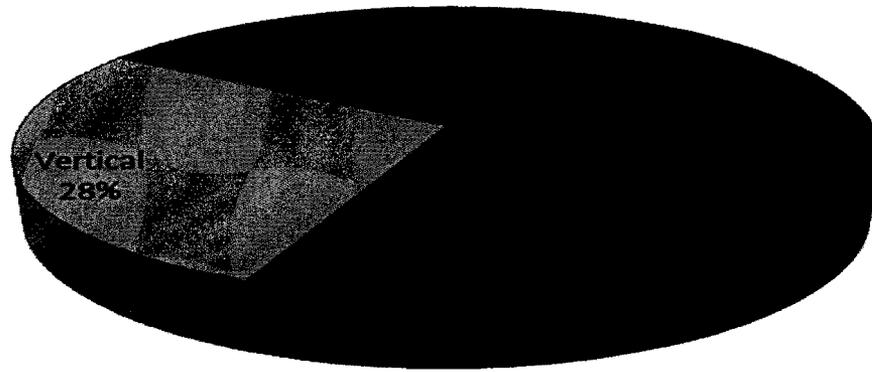
**Table 2: Country of origin of the acquired firm**

| No | Country        | Cross-Border Cases |
|----|----------------|--------------------|
| 1  | Australia      | 4                  |
| 2  | Brazil         | 1                  |
| 3  | Cambodia       | 2                  |
| 4  | China          | 10                 |
| 5  | Egypt          | 1                  |
| 6  | Hong Kong      | 1                  |
| 7  | India          | 9                  |
| 8  | Indonesia      | 17                 |
| 9  | Mauritius      | 2                  |
| 10 | Netherland     | 3                  |
| 11 | New Zealand    | 1                  |
| 12 | Pakistan       | 1                  |
| 13 | Philippine     | 1                  |
| 14 | Singapore      | 13                 |
| 15 | South Africa   | 1                  |
| 16 | Taiwan         | 2                  |
| 17 | Thailand       | 14                 |
| 18 | United Kingdom | 4                  |
| 19 | United States  | 5                  |
| 20 | Vietnam        | 2                  |
|    | <b>Total</b>   | <b>94</b>          |

### 4.3 Types of M&A

As this study looks at multiple industries rather than focusing on a single industry we therefore divided the sample into types of M&A as proposed by Kitching (1967). Kitching's study established the underlying causes for variations in M&A performance using a sample of 22 companies involved in 69 acquisitions. The study investigated five types of M&A, namely, horizontal, vertical, conglomerate, concentric marketing and concentric technology. However, we only employed three of them. We excluded concentric marketing and concentric technology as these M&A types are very specific and may have confused the respondents. In fact, studies investigating M&As in countries like Malaysia and Indonesia are rare (Shanmugam & Nair, 2003). Therefore, we used horizontal, vertical and conglomerate of M&As. Figure 1 shows the distribution of the types of M&A in this study. It shows that horizontal M&As is dominating the types of M&A (56%). Meanwhile vertical and conglomerate are 28% and 16% respectively.

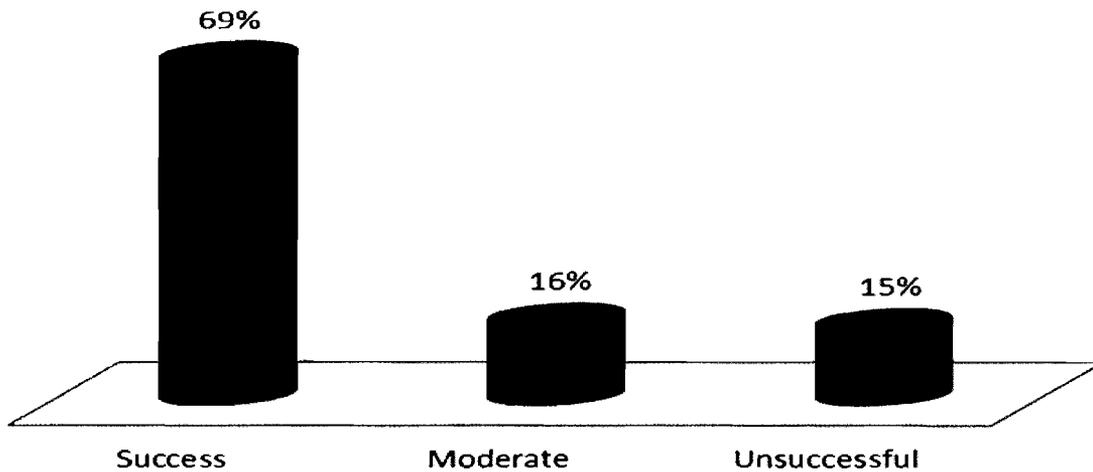
**Figure 1: Types of M&A**



#### 4.4 Perception of Firm's Amalgamation

The survey results showed that nearly 69% of the respondents had a successful experience of the amalgamation of the target firm and the acquiring firm. Meanwhile, 16% of the respondents assessed their experience as moderate and, finally, 15% said they were unsuccessful. These figures are shown in Figure 2.

**Figure 2: Perceive of M&A Amalgamation**



## 5 Discussions and Conclusion

As for the conclusion, these cross-border M&A's pattern is important to provide a base research in the development of mergers and acquisitions particularly in Malaysian contexts. Although this study focused on the presentation of data, the patterns of cross-border M&A among Malaysian multinational firms, nevertheless it demonstrates a trend of horizontal combination is found to be the most dominant. Apart from that, the data also revealed that most Malaysian multinational firms acquired firms that are basically neighbouring to our country. These countries are Indonesia, Singapore, Thailand and other continents such as India and China. This means Malaysian multinationals are keen to take high risk to acquire firms that they are familiar with.

On top of that, this study also indicates that there are various industries applied M&A strategy in expanding their business entities overseas. Engineering, software and telecommunication industries are among the leading industries engaged in cross-border M&A. This is followed by financial services, automotive, machinery and plantation and agribusiness.

In terms of amalgamation perception of Malaysian firms in cross-border M&A, the study clearly shows that Malaysian firms succeeded in integrating their business operations with the acquired firms even though the target firms are from different country background. Although the percentage of success in combining the firms is high but there is a need for future research to study the failure ones which can reveal why the integration fail between the two firms in cross-border M&A. This is important as it can identify failure factors and suggest remedies for this phenomenon. This effort can even suggest related antecedents of cross-border M&A that may be applied or even introduce new factors by Malaysian firms when planning their international expansion strategies especially through cross-border M&A. Additionally, cross-border M&A studies were often based on pure case study rather than through large-scale survey method and mostly being conducted in developed countries. This research, however describes the cross-border M&A research in the continents of emerging countries.

Generally, studies of cross-border M&A haven't been discovered much in ASEAN region. Due to this reason, this research work attempts to address this and come up with satisfactory answers on the M&A trends that were conducted by Malaysian firms.

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