SOCIAL SCIENCES & HUMANITIES

Effects of Ownership and Board Structures on Acquisitions Returns

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ABSTRACT

This study examined the announcement effects for acquirers from the years 2000 to 2013. Since acquisitions create agency problems and companies in Malaysia exhibit concentrated ownership structures, this study aimed to investigate three major objectives namely the effects of family control, blockholder activism, and board structures on the stock performance of acquirers. In addressing these objectives, the three-day abnormal returns one day before the announcements were adopted as the proxy for the announcement effects. Ordinary least squares regression methods were used to examine the effects of the 10 factors on abnormal returns. The results show that acquisitions in Malaysia were value-enhancing, which is consistent with the synergistic theory. Family ownership and active institutional blockholders were able to create value which implies that family-controlled firms do not engage in opportunistic behavior. Moreover, institutional blockholders should play an active role if they want to protect their investments. The study has implications on regulators such as the Securities Commission (SC) with regards to board composition in which independent directors should consist of at least one-third of it because such composition leads to more significant values.

Keywords: Announcement effects, blockholder, board structure, family, Malaysia

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INTRODUCTION

A majority of Malaysian companies are controlled by families (Claessens et al., 1999; Mohd et al., 2015). Mohd et al. (2015) showed that at least 64.5% (55.3%) of companies listed on the Main Market of Bursa Malaysia were controlled by families if 20% (30%) ownership was used as the cut-off point. Family firms face a different type of agency problem as compared to non-family firms. In family firms, the agency problem between managers and large shareholders can be reduced or even eliminated because family members are often present on the board or serve as part of the management team (Bouzgarrou & Navatte, 2013). However, a different type of agency problem emerges when the families, who own a significant number of shares in the firm, use their controlling power to undertake actions that would benefit them but at expense of minority shareholders. Such actions include empire-building, managerial compensations, reducing risks, or increasing survival. By undertaking acquisitions, family-owned firms could pay a higher amount of remuneration to family members who usually serve as directors and managers. Anderson and Reed (2003) argued that family firms focused on survival rather than enhancing shareholder value.

Furthermore, family firms may choose to diversify their investments to lower the probability of financial distress or bankruptcy even though this action might lower firm value (Bouzgarrou & Navatte, 2013). Thus, acquisitions can be used as a way to reduce financial distress or increase the survival of the family firm. Most research support this argument as family firms are often found to outperform non-family firms in acquisitions (André et al., 2014; Ben-Amar & André, 2006; Bouzgarrou & Navatte, 2013; Craninckx & Huyghebaert, 2015; DeCesari et al., 2016).

Agency problems that emerge from merger and acquisition (M&A) activities can be alleviated by corporate governance (for example, Ahn et al., 2010; Ashraf & Jayaraman, 2014; Masulis et al., 2007; Park et al., 2008). Good corporate governance can ensure that firms do not get into default or bankruptcy (Zhou et al., 2011) and can increase the effectiveness in the monitoring and improvement of decision making as well as in reducing agency problems between minority and majority shareholders. This study examined two mechanisms of corporate governance namely the role of the board of directors and the participation of blockholder. A board of directors consists of individuals who are nominated by the company's shareholders thus serving as effective internal monitoring (Hilscher & Şişli-Ciamarra, 2013). Meanwhile, the participation of blockholders may contribute to the success or failure of M&As as they can monitor managerial actions. As such, seven important governance-related characteristics are examined namely the participation of active and passive individuals and institutions of blockholders, the board size,

independent directors, executive directors, and founder-director, with the stock price performance of M&As.

Several studies had analysed the effect of acquisitions on share prices of the acquiring firms (see Jarrell et al., 1988; Jensen & Ruback, 1983; Martynova & Reenboog, 2008; Renneboog & Vansteenkiste, 2019, for an extensive literature review). Most of the evidence of acquisitions examines the issues in the context of developed markets (Amewu & Alagidede, 2018; Field & Mkrtchyan, 2017; Gleason et al., 2014; Swidler et al., 2019). Meanwhile, amongst well-known studies in developing markets document show the effects of the acquisition on the share prices of the acquiring firms are mixed (Chen et al., 2020; Sha et al., 2020; Yang & Segara, 2019). Past Malaysian studies consistently documented that acquisitions created wealth for acquiring shareholders (Isa, 1994; Ma et al., 2009; Mat-Nor & Ismail, 2006; Mat-Rahim & Pok, 2013). However, they did not associate stock price performance with any governance and ownership patterns. Thus, this study intended to fill that gap. To the author's best knowledge, this is among the initial studies conducted to examine the effects of family firms and shareholders' return on acquisition performance in Malaysia.

This research investigated in-depth the effects of family ownership on the wealth of acquisition. The prevalence of family-controlled firms in Malaysia coupled with a lack of studies on the effects of these firms on acquisition performance further indicates that this area needs to be further explored. By observing the stock price performance of family firms in Malaysia, this study aims to present findings from the context of a developing country which in turn could be used as a comparing point to the performance of family-controlled firms in developed countries such as the US (Basu et al., 2009), European countries (DeCesari et al., 2016), France (Bouzgarrou & Navatte, 2013) and Canada (André et al., 2014). Using a sample of Malaysian acquisitions from the period of 2000 to 2013, this paper found that investors reacted positively in the short-term to the presence of active institutional blockholders in the acquiring firms as they could monitor managerial activities in those companies. On the other hand, the presence of either passive individual blockholders or active individual blockholders leads to a lower value, which could be due to a lack of monitoring in the case of passive blockholders or to diversifying concerns for active individual blockholders. Therefore, a good acquisition decision is in the hands of active institutions as they would ensure the effectiveness of the acquisition. The positive returns to shareholders show that acquisitions in Malaysia are value-enhancing and this could be attributed to the synergistic effects as asserted by Bradley et al. (1983) and Duggal and Miller (1999). Concerning the directorship, the overall results indicate that the presence of directors does not lead to any significant effect on value except for independent directors, whereby in additional analyses, the proportion of independent directors leads to significant value creation.

Thus, the recommendation by the Securities Commission (SC) that independent directors should constitute at least one-third of the board is good for the shareholders of the bidding firms.

The remainder of the paper is organized as follows. In Section 2, this study presents the related theory and literature. Section 3 describes the sample of the selection process, variables, and methodologies used to measure acquirer performance. The results are presented in Section 4 while Section 5 concludes the paper.

Literature Reviews and Hypotheses Development

The first explanation for M&As is based on agency theory. There are two types of agency problems: Type I involving owners and managers and Type II involving the majority and minority shareholders (Villalonga & Amit, 2006). Agency problems arise because of the differences that exist in goals and risk preferences (Eisenhardt, 1989). This problem can motivate the managers to pursue their objectives at the expense of shareholders' interests (Jensen & Meckling, 1976). Gompers et al. (2003) reported that firms with higher agency problems and stronger managerial rights were more likely to pursue M&As. Weston et al. (1990) argued that M&A might lead to three forms of agency problems namely managerial entrenchment[1], empire-building[2] , and risk reduction[3].

1   occurs when managers make themselves a valuable asset to their firms and costly to be replaced (Shleifer & Vishny, 1986).
2   Managers often prefer to maximize their utility instead of shareholders' value (Trautwein, 1990).
3   Managers wanted to maximize their utilities and reduce risk-employment such as the risk of losing jobs and their professional reputation.

Firms with high family ownership show significant abnormal returns according to several studies. Significant positive returns to shareholders are found when families acquire other companies (André et al., 2014; Bouzgarrou & Navatte, 2013; Caprio et al., 2011; Craninckx & Huyghebaert, 2015). However, Basu et al. (2009) and Bauguess and Stegemoller (2008) found significant negative returns to shareholder wealth. These results indicate that family firms face an agency problem in M&As, which subsequently lowers the wealth of shareholders. Therefore, the following hypothesis is developed:

H_1: There is an effect of family ownership on abnormal returns in the short-run following acquisition announcements.

Blockholder could monitor managerial actions in the acquisition by reducing agency problems between managers and outside shareholders (Bauguess et al., 2009; Bouzgarrou & Navatte, 2013; Harris et al., 2010). There are two types of blockholders examined in this study: passive and active. A passive blockholder is not represented on the board while an active blockholder has a representative on the board. Thus, it is expected that active shareholders will play a more vital role in monitoring managerial performance. Therefore, the following hypothesis is developed:

H_2: There is an effect of either active or passive individual blockholding on abnormal returns in short-run performance following acquisition announcements.

Conflict of interest between the majority and minority shareholders may be alleviated with the existence of independent directors,

who could monitor managerial actions. Bursa Malaysia (2020) classified an independent director as a director with less than nine years of attachment to a firm. As documented by previous studies, high levels of outside director's acquisition expertise will have the greatest positive effects on acquisition performance (Alexandridis et al., 2010; McDonald et al., 2008). Therefore, the following hypothesis is developed:

H_3: There is an effect of director independence on abnormal returns in short-run performance following acquisition announcements.

Despite the importance of director independence in minimizing agency problems, the executive director and founder-director could also influence agency problems. They also have expertise and experience that could lead to better decision-making in investment strategy due to their private knowledge. A study by Field and Mkrtchyan (2017) found that executive directors played effective roles in improving acquisition performance. They argued that executives with prior acquisition experience generated positive returns. However, the result for executive directors without experience is either negative or insignificant (André et al., 2014). Therefore, the following hypothesis is developed:

H_4: There is an effect of executive director on abnormal returns in short-run performance following acquisition announcements.

Normally, founders of firms have specialized knowledge, significant ownership, and non-pecuniary factors that are linked to their firms. Xie (2015) stated that founders also could select more diligent directors for their companies in order to manage and sustain the firms' wealth. Besides, he argued that the founders' personal characteristics could affect firm value. This is supported by Bouzgarrou and Navatte (2013), Caprio et al. (2011), and Li and Srinivasan (2011) who found that founder directors generated positive returns for bidders. Thus, the role of founders is associated with value creation for acquirers. Therefore, the following hypothesis is developed:

H_5: There is an effect of founder-director on abnormal returns in short-run performance following acquisition announcements.

This paper aims to present a different perspective from a developing country that in turn could be used as a comparing point to the performance of blockholders and board structures from developed countries such as France, the US, Vietnam, and Canada (André et al., 2014; Bougarrou & Navatte, 2013; Li & Srinivasan, 2011; Pham et al., 2015). This study sheds light on the role of corporate governance mechanisms in affecting shareholders' wealth in M&As. Given that the majority of firms in Malaysia are controlled by families, the conflict of interest between the majority and minority shareholders might be even more severe. To solve this predicament, effective corporate governance mechanisms are required, which may be in the form of blockholder participation and director independence. Furthermore, conducting a study on this topic is also important because it examines

the effectiveness of the monitoring role of independent directors as suggested and revised in MCCG 2001, 2007, and 2012. The monitoring activity will subsequently enhance the quality of the firms' decisions that will affect directors.

METHOD

Sample Selection

The data was obtained from the general announcement section in Bursa Malaysia's website, circulars to shareholders, the company's annual report, Securities Commission's website, Thompson DataStream, and Bloomberg Merger and Acquisition (M&As) database. Data on ownership characteristics, governance characteristics, and deal characteristics were manually collected from the companies' proposals and annual reports from the year 2001 to 2014. The initial data comprised of 4702 announcements. Sample observations included all deals between the years 2000 and 2013. According to the Securities Commission (2007), M&A is defined when "the acquirer or proposes to acquire control in a company whether the acquisition is effected by the person or by any agent". Thus, out of the 278 acquisitions, "clean" samples made up 203 announcements and "unclean" samples made up 75 announcements. Clean data is classified as clean announcements of acquisitions with no other announcements made up by acquirers. Meanwhile, unclean announcements consist of other announcements made up by acquirers that affect share prices. The sample of this study focused only on the cleaned groups.

Two methodologies were applied in this study. First, to measure announcement performance, event study methodology was used to estimate the cumulative average abnormal return (CAAR). Second, to measure the effects of the independent variables on the cumulative abnormal return (CAR) regression models were used.

This study used event study methodologies as suggested by previous researches (Bradley et al., 1983; Brown & Warner, 1985; MacKinlay, 1997). The market model was used to measure abnormal market reactions on M&A announcements returns. To capture the impact of market reactions on M&A announcements, this study used a 121-day event window that comprised the 60 pre-event days, the event day, and 60 post-event days. The estimation period was from day 200 to 61 days before the announcement date.

To measure the CAR, the normal return was first calculated using the market model approach as suggested by MacKinlay (1997)[4]. Normal return refers to the expected return if the event did not happen. The FTSE Bursa Malaysia EMAS Index (FBMEMAS) was used as the market portfolio. FBMEMAS was chosen because it was a broader index as compared to the more popular FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBMKLCI).

[4] As suggested by MacKinlay (1997), a larger event window was used rather than a specific period of interest to enable the researcher to capture market reactions prior to the official date of the announcement.

RESULTS AND DISCUSSIONS

Share Price Reactions on Acquisition Announcements

Table 1 reports the CAAR for acquiring firms using MM. The CAAR for the acquiring firms for the two-day event window (0, 1) and 121-day event window (-60, 60) are 0.826% (p=0.014) and 6.102% (p=0.019) respectively. The findings of this study are consistent with that of other studies in Malaysia such as Ma et al. (2009), Mat-Nor and Ismail (2006), and Mat-Rahim and Pok (2013). Mat-Nor and Ismail (2006) who found that the return of 8.26% was significant over a longer 61-day window period (-30, 30).

Mat-Rahim and Pok (2013) recorded that acquirers earned significant positive returns of 0.24% for a two-day event window (-1, 0) and 0.34% for a five-day (-2, 2) event window, while Ma et al. (2009) found positive significant returns of 0.80% for a three-day event window (-1, 1). However,

the findings of this study contradict that of Isa (1994) which found acquirers recording insignificant returns of 1.162% for a two-day event window (-1, 0). Acquirer returns from developed markets are mixed. Andrade et al. (2001) and Duggal and Miller (1999) found that the returns from short-term event windows of (-1, 1) and (-20, 1) in the US are -0.7% and 1.20% respectively and that both values are significant at 5% and 10% levels. Meanwhile, Gleason et al. (2014) found that the returns in the US for the event window (-1, 1) was positively significant at 0.98% (p=0.10). Andriosopoulos and Yang (2015) and Bougarrou and Navatte (2013) found that returns for the short-term event window of (-1, 1) were positive at 0.75% and 1% and were significant to the bidders in the UK and France respectively. The returns of the post-announcement event window of (2, 60) for both samples were not statistically significant. This supports the efficient market hypothesis as forwarded by Fama (1970).

Table 1

Results of CAAR for sample groups using Market Model (MM)

Event window	Clean (n=203)	
	CAAR (%)	p-value
CAAR (-60,60)	6.102%	0.019**
CAAR -60,10)	4.540%	0.008***
CAAR (-20,1)	2.475%	0.002***
CAAR (-5,1)	2.104%	0.000***
CAAR (-3,1)	1.250%	0.007***
CAAR (-1,1)	0.939%	0.008***
CAAR (0,1)	0.826%	0.014***
CAAR (2,60)	1.281%	0.427

Note: denotes significance level at 1%, 5%and 10% level respectively

Descriptive Analyses

Table 2 presents a summary of descriptive statistics for all variables characteristics of the 203 sample firms. Majority of the companies that announce acquisitions can be classified as family companies (n = 158) as families own more than 10% in the company. The family ownership (FAMILYOWN[5]) on average is 32.11%. The highest family ownership is recorded by KrisAsset Holding Bhd with almost 76.41% of its share is held by IGB Corporation Bhd. The percentage of family ownership recorded in this study is also consistent with previous studies for example Song and Rath (2010) and Song et al. (2008) who found the average of concentrated ownerships was 32.7% and 32% respectively. Moreover, 54 firms (26.60%) had at least one active individual blockholder (BLIDACT[6]) blockholder and

55 firms (27.09%) had at least one passive individual blockholder (BLIDPSV[7]). The average for both blockholders was 3.65% and 3.31% respectively. Accordingly, on average of active institutional blockholder (BLISACT[8]) is 8.36%. The maximum ownership of active institutional blockholder (82.33%) was recorded by Cycle and Carriage Bintang Bhd with the majority of shares held by Cycle and Carriage Limited (48.070%), Employees Provident Fund Board (EPF) (21.590%) and J.I.Motor Holding B.V. (12.670%). Meanwhile, the average variance inflation factor (VIF) for the regression model is 1.42 while the score for each variable is less than 3 indicate that the multicollinearity problem does not exist in this model.

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[5]   FAMILYOWN relates to the percentage of voting rights an individual or a family holds, directly or indirectly (at least 10%), while the aggregate shareholdings of other major shareholders are not greater than 10%.
[6]   BLIDACT is defined as a percentage (%) of the number of blockholders of an individual and non-family company holding at least 5% of voting rights, and represented on boards.

[7]   BLIDPSV is the percentage (%) of the number of blockholders of an individual and non-family companies holding at least 5% of voting rights, and not represented on boards.
[8]   BLISACT is the percentage (%) of institutions, corporations, and non-family companies holding at least 5% of voting rights and represented on boards.

Table 2

Independent variables descriptive statistics

VARIABLE	MEAN	MAXIMUM	MINIMUM	MEDIAN	STD DEVIATION	VIF*
FAMILYOWN	0.3211	0.7641	0	0.3257	0.2157	2.07
D4BLIDACT	0.2660	1	0	0	0.4430	1.23
BLIDACT	0.0365	0.2688	0	0	0.0672	1.65
D4BLIDPSV	0.2709	1	0	0	0.4455	1.11
BLIDPSV	0.0331	0.2603	0	0	0.0598	1.64
D4BLISACT	0.2118	1	0	0	0.4096	1.95
BLISACT	0.0836	0.8233	0	0	0.1937	1.65

Table 2 *(Continued)*

VARIABLE	MEAN	MAXIMUM	MINIMUM	MEDIAN	STD DEVIATION	VIF*
D4BLISPSV	0.2906	1	0	0	0.4552	1.15
BLISPSV	0.0316	0.4053	0	0	0.0599	1.64
BOARDOWN	0.3049	0.7493	0	0.3203	0.2211	1.16
INEDBRD	0.4548	1	0.14	0.43	0.1388	1.60
INEDOWN	0.0051	0.0799	0	0.000	0.0129	1.21
EXECDIRBRD	0.3602	0.83	0	0.38	0.1939	1.72
EXECDIROWN	0.2507	0.7492	0	0.2078	0.2224	1.13
D4FOUNDER	0.1034	1	0	0	0.3053	1.09
D4CASH	0.8818	1	0	1	0.3237	1.79

Note: *denotes the diagnostic tests in this study include tests of multicollinearity, heteroscedasticity, autocorrelation, normality, and outlier.

Multivariate Analysis

The study had conducted several diagnostic tests such as multicollinearity, heteroscedasticity, autocorrelation, and others. The results in multicollinearity (VIF=1.42), heteroscedasticity (the Breusch-Pagan/Cook-Weisberg [17.07 as it significant 1% level]), autocorrelation (Durbin-Watson [DW] test was 1.8848 which lies above the upper limit of DW table (dU=1.8477), the null hypothesis of no autocorrelation is not rejected. The results of normality and outlier will be given upon request.

Table 3 displays the regression results when different measures of directors or blockholders are appointed in Model 1[9] to Model 2[10]. Model 1 uses blockholder as measured by ownership and the proportion for director participation. The results show that BLISACT is significant at this stage and is statistically significant at a 5% level while BLIDACT is not significant at this stage. D4FOUNDER[11] illustrates significant outcomes in Model 2. The adjusted R-squares[12] are 1.13% and 9.24% and it is consistent with those in previous studies (Bauguess et al., 2009; Craninkx & Huyghebaert, 2015; Field & Mkrtchyan, 2017, for an extensive literature review) for Models 1 and Model 2 respectively. F-statistic indicates that jointly, the coefficients of the independent variables are not equal to zero for both models. Next, Model 2 uses a dummy for the presence of blockholders and the ownership of directors' participation. The adjusted R-squares are 0.0924% and the F-statistic

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9   Model 1 shows blockholder as measured by ownership and proportion of directors.

10   Model 2 shows blockholder as measured by dummy and director as measured by ownership.

11   D4FOUNDER = is defined as 1 if a firm has a founder on its board; 0 otherwise.

12   As the Breush-Pagan/Cook-Weisberg value is a statistically significant 17.07 while Durbin-Watson *d* value is not significant, the Robust Standard Error procedure for heteroscedasticity is used.

Table 3

Multiples regressions for variables on returns to acquirers (Model 1 to Model 2)

VARIABLE	Model 1	Model 2
FAMOWN	0.0933*** (0.0022)	0.0653* (0.0995)
D4BLIDACT		-0.0220** (0.0232)
BLIDACT	-0.1114 (0.1184)	
D4BLIDPSV		-0.0238*** (0.0082)
BLIDPSV	-0.1490** (0.0475)	
D4BLISACT		0.0217* (0.0956)
BLISACT	0.0526** (0.0175)	
D4BLISPSV		0.0030 (0.7884)
BLISPSV	0.0134 (0.8734)	
BOARDOWN	-0.0054 (0.7855)	-0.0152 (0.4445)
INEDBRD	0.0920** (0.0443)	
INEDOWN		0.2044 (0.4517)
EXECDIRBRD	0.0231 (0.4205)	
EXECDIROWN		0.0215 (0.5885)
D4FOUNDER	-0.0208* (0.0902)	-0.0112 (0.3733)
D4CASH	-0.0359** (0.0234)	-0.0305* (0.0666)
CONSTANT	-0.0191 0.7114	0.0491 0.2770
No. Observation	203	203
F-stat	3.71	3.29
Sign F-stat	0.0001	0.0006

R^2	0.1553	0.1373
Adj R^2	0.1113	0.0924

***, **Note: * denotes significance level at 1%, 5% and 10% level respectively

indicates that jointly, the coefficients of the independent variables are not equal to zero for both models. On top of that, the coefficients of BLIDACT, D4BLISPSV[13], BLISPSV, BOARDOWN[14], INEDOWN[15], EXECDIRBRD[16], and EXECDIROWN[17] are demonstrated to be insignificant for all Models. This study also included control variables such as cash (D4CASH)[18], this variable is negatively significant for all the models.

As the family's wealth is linked to the performance of the firm, family firms are more risk-averse; thus, they tend to be more cautious in making investment decisions. For example, they could be choosy in identifying a target firm and they would not overpay for it. Furthermore, they have more incentive to monitor target firms. The results for family ownership and

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13   D4BLISPSV is a dummy of institutions, corporations, and non-family companies holding at least 5% of voting rights and not represented on board.

14   BOARDOWN is defined as a percentage (%) of shareholding by all members of board of directors.

15   INEDOWN is the percentage (%) of independent directors to total directors.

16   EXECDIRBRD denotes the fraction of professional CEOs involve the board's day to day operations.

17   EXECDIROWN is the percentage (%) of professional CEOs involved in the board's day to day operations.

18   D4CASH = is defined as 1 if cash-acquisition; 0 otherwise. The number in the bracket is the p-value.

family directorship show the non-existence of managerial entrenchment or agency problems between the majority and minority shareholders. Thus, the higher the family ownership or directorship stake, the higher the abnormal returns. These findings support the hypothesis that there is a significant effect of family ownership and family directorship on acquisition announcements.

Next, it is anticipated that blockholders can monitor the performance of acquisitions (Shleifer & Vishny, 1986). If they are powerful, they could replace underperforming managers. Studies done by Bauguess et al. (2009) and Walters et al. (2007) showed that active blockholders could play their role in companies and generated significant positive returns for the (-3, 3) and (-1, 1) window periods. As for passive blockholders, Bauguess et al. (2009) found that they did not play a role in explaining returns to acquirers, as evident from the insignificant effect for a three-day event window (-1, 1). However, in this study, active individual blockholders (D4BLIDACT[19]) and passive individual blockholders (D4BLIDPSV[20] and BLIDPSV) bring value-decreasing returns to acquirers. The existence of either active or passive individual blockholders on the board leads to a 2.03%, 2.23%, or one-standard-deviation increase in family ownership which leads to an 8.40%

reduction in abnormal returns, respectively. These coefficients are statistically significant at least at the 10% level. There are two reasons for the significant negative returns. First, despite having 5% shareholding, active individual blockholders do not play an active role in monitoring, which subsequently reduces their involvement in decision-making. Second, the passive individual blockholder would only aim to diversify their investment in order to reduce the overall risk without any involvement in the firm's management.

This study finds that the active institutional blockholders (D4BLISACT[21] and BLISACT) who serve on the boards add more value to the acquirer. The empirical evidence reveals that active institutional blockholders in firms reduce the CEO's entrenchment and increase the benefit of monitoring (Bauguess & Stegemoller, 2008; Bauguess et al., 2009; Walters et al., 2007). They detected that active institutional blockholders bring significant positive returns for short window periods. A plausible explanation for such a condition is that the active institutional blockholders in Malaysia are able to provide a monitoring role and thus influence the board of directors to acquire targets that can lead to value creation.

Following that, this study finds that the fraction of independent directors (INEDBRD[22]) on the board does play a

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19   D4BLIDACT is defined as a dummy of individual block holder and non-family owned companies having at least 5% of voting rights, and represented on the board.
20   D4BLIDPSV reflects a dummy of individual block holder and non-family owned companies holding at least 5% of voting rights and not represented on the board.

21   D4BLISACT reflects a dummy of institutions, corporations, and non-family owned companies holding at least 5% of voting rights and represented on the board.
22   INEDBRD represents the fraction of independent directors to total directors.

rather significant role and eventually leads to positive and significant returns to the acquiring firms. In reviewing the relevant literature, INEDBRD is often found to be a good governance mechanism since it represents the shareholders' interest. The independent directors bring additional expertise and valuable business relationships that should benefit the firm and serve as the drivers for the growth performance of the M&As (Walters et al., 2007; Pham et al., 2015). It is believed that an independent board would then increase the directors' capacity in influencing the firm's strategic decisions in M&As (McDonald et al., 2008). This is in line with findings from previous studies by Ben-Amar and André (2006), Pham et al. (2015), and Walters et al. (2007) who supported the claim that independent directors had a statistically significant positive effect on acquirers for short window periods.

The dummy for the founder (D4FOUNDER) shows a negative significant coefficient of -0.0208 for a five-day (-3, 1) event window in Model 2. Thus, this study shows that founder-directors create negative returns for firms. This result is consistent with that of earlier studies by Bauguess and Stegemoller (2008) and Ning et al. (2014) who all agreed that the presence of the founder on the board resulted in negative and statistically significant returns for a three-day event window (-1, 1). They argued that founders had their own objectives which were not focused on maximizing shareholders' wealth but rather on entrenching their position in the firm.

Finally, family ownership and acquisition financed by cash are confirmed to always be significant in explaining returns regardless of the models used. Positive returns to bidders indicate that family-controlled firms in Malaysia engage in M&As in order to maximize shareholders' wealth and not to achieve private benefits for family members. Furthermore, the findings establish that families align their interests with those of minority shareholders. The results also show that if families want to diversify their risk through acquisitions, they would only do so by acquiring firms that could lead to value-creating synergies. Finally, the findings indicate that agency problems between the minority and majority shareholders in acquisitions are lessened. This finding is consistent with that of previous studies (see for example André et al., 2014; Ben-Amar & André, 2006; Bougarrou & Navatte, 2013; Caprio et al., 2011; Craninckx & Huyghebaert, 2015; DeCesari et al., 2016; Defrancq et al., 2016; Ruiz & Requejo, 2010).

As for acquisitions financed by cash, the results show that bidders in Malaysia are categorized as cash-rich bidders and experience value-decreasing acquisition. This outcome is also in line with the results of previous studies (see for example Banerjee et al., 2014; Bouzgarrou & Navatte; 2013; Harford, 1999; Mat-Nor & Ismail, 2006). Moreover, Jensen (1986) also stated in his study that since free cash flow functioned as the fund for all the firms' projects, the firms were usually reluctant or refuse to pay out to shareholders. Nevertheless, the

firms still manage to generate substantial free cash flows whilst the managers from the firms with unused borrowing power are prone to engage in low benefit, unprofitable projects, or even create value-destroying acquisitions. Consequently, firms with high free cash flows have a higher probability of facing conflicts of interest between the shareholders and managers.

Discussions

This study explored the announcement effects of the acquisition on the performance of bidding firms. Moreover, this study also explored whether governance mechanisms such as blockholder activism and board structures (board size, independent director, executive director, and founder-director) as well as control factors (cash) could explain short-term announcement effects in Malaysian acquirer firms. The positive announcement effect of acquisitions by acquirers had been well documented in various countries especially in the United States as well as European and Asian markets.

The evidence shows that family ownership leads to a positive relationship in explaining returns for short-term performance. This indicates that family-controlled firms do not engage in opportunistic behaviour by expropriating wealth from minority shareholders. Thus, the findings of this study contradict that of Lemmon and Lins (2003) who found that controlling shareholders in Asia including Malaysia engaged in expropriating behaviour. A possible explanation for the positive relationship is that expropriation does not occur in acquisitions as it will reduce stock prices. The findings have implications on several parties such as managers of bidding firms, policymakers, and academicians. With respect to managers of family-controlled firms, as long as an acquisition is creating value, they do not have to worry about investors penalizing them. Policymakers do not have to worry about opportunistic behaviour because investors will penalize family-controlled firms who engage in such behaviour as investors are always monitoring their actions. This study also enriches the knowledge of academicians as it proves that investors make rational investment decisions. If they believe that acquisitions by family-controlled firms would create value, they would then invest in those companies. The findings are also relevant to the Securities Commission as one of the regulators for the Malaysian capital market. Furthermore, since Malaysia has a distinct characteristic by which institutions namely government-linked investment companies (GLICs) and non-GLICs play a major role in monitoring firms, the effect of their ownership may be even more consequential on the acquisition's value. The future research could be beneficial to the government as it shows whether acquisition undertaken by GLICs controlled companies create shareholders' value. Moreover, M&As in Malaysia are now moving to the transforming industry to the fourth industrial revolution (IR4.0) in which to drive the digital transformation of the manufacturing and related services sector in

Malaysia together with the implementation of financial services technology (Fin-tech). Thus, M&As could be used to tap into domestic and foreign markets, acquire cutting edge technology, improve products and services, and cut costs. This study intends to investigate this conjecture in the future.

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