School of Accounting
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Short-Term Wealth Effects of Acquisition Announcements by Family-Controlled Firms in Malaysia

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DECLARATION

To the best of my knowledge and belief this thesis contains no material previously published by any other person except where due acknowledgment has been made. This thesis contains no material which has been accepted for the award of any other degree or diploma in any university.

Signature:

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Date: 1st October 2014

ABSTRACT

This study investigates whether Malaysian family-controlled firms create firm value when undertaking corporate acquisitions and which family-specific traits determine this value. Event study methodology is employed to examine the announcement-period wealth effect of corporate acquisition (*cumulative abnormal returns – CAR*). Both univariate and multivariate statistical analyses are used to examine which family-specific traits are significant determinants of CAR of Malaysian family-controlled firms. Inferences drawn in this study are based on 267-sample corporate acquisition announcements performed by publicly listed Malaysian family-controlled firms across a 10-year sample period from the years 2002 to 2011.

The motivation of this study stems from the literature gap (within the literature of corporate acquisitions and literature of family firms) where there is no empirical study that has specifically examined the relation between family-related traits and CAR. Past corporate acquisition studies inferred that acquiring firms essentially experience no significant wealth effect of corporate acquisition announcements or are worse off with significant negative announcement wealth effect. However, when considering the effect of family ownership, existing studies found significant wealth effect experienced by family firms that are the acquirers (either positively or negatively). Family firm research remains a young field, which only began receiving burgeoning attention in the 1990s. The study of La Porta et al. (1999) reported that family firms are found to be prevalent in the global capital markets, as opposed to the version of widely held firms by Berle and Means (1932). These organizational structures are found to exert substantial influence over the economic landscape of most nations. Family firms in

Malaysia, which are prevalent among Malaysian publicly listed firms, wield considerable economic power in the country.

Given that the ownership structure of the majority of Malaysian family-controlled firms is characterized by concentrated shareholdings of controlling owners, the protection of minority shareholders becomes inherently critical. However, the real act of expropriation is scarcely investigated in the context of Malaysia. Corporate acquisitions in this case offer one available direct measure for the real act of possible expropriation activities for Malaysian family-controlled firms. Malaysia is in an active position with corporate acquisition activities accounting for the highest percentage of total deals and transaction value in the Southeast Asian region since 1990. However, no significant studies have been conducted to find out if corporate acquisition activities are subject to misappropriation behaviour by Malaysian family-controlled firms. There is also no study conducted to know the wealth effect experienced by Malaysian family-controlled firms and the determinants of the wealth effect. There is also no study conducted to find out the wealth effect experienced by Malaysian family-controlled firms and the determinants of the wealth effect.

The main finding in this study shows that Malaysian family-controlled firms, on average, perform value-enhancing corporate acquisitions. Furthermore, this study also provides empirical evidence that family-specific traits are important determinants of CAR. The findings extend our knowledge and understanding within the corporate acquisition literature and family firm literature that family-specific traits should not be excluded from consideration when performing similar study on the wealth effect of corporate acquisitions for family firms. The family-specific traits that are found to exhibit significant relation with CAR in this study are family ownership, family management regime (founder-CEO and descendant-CEO), family representatives on

the board (relative to independent directors on the board), and family-related CEO and chairman on the board.

Specifically, this study is the first to show a nonlinear relation between family ownership and CAR for Malaysian family-controlled firms and to empirically report on a significant positive relation between descendant-CEO and CAR. Consistent with previous literature, this study showed a nonlinear relation between proportion of family representatives on the board (relative to proportion of independent directors on the board) and CAR. This study also provides the first-ever evidence within family firm literature and corporate governance literature by finding support that there is a significant negative relation between family-related chairman-CEO on the board and CAR. This study is also the pioneer in documenting the existence of such family-specific practices upheld by Malaysian family-controlled firms. However, whether such practice is upheld by family firms in other countries is unknown and not yet empirically documented. Overall, these inferences are made within multivariate settings, which control for the known determinants of CAR. Robust analyses are also performed for the generation of valid inferences. In general, these findings provide significant contributions to the literature of family firms, corporate acquisitions, and corporate governance.

Additionally, the findings of this study also have policy implications for policy makers, practitioners, and investors in the industry. First, restrictions on the level of family ownership held by the controlling family in publicly listed Malaysian family-controlled firms need to be put in place. Evidence reveals that the optimum level of family ownership should not exceed 50% to maximize family firm value. Second, it is recommended that currently, corporate governance practices should consider restricting participation of family members on the board of Malaysian family-controlled firms. This leads to the third policy implication in this study. Policy makers need to

consider setting a new mandatory ratio of independent directors on the board, specifically for Malaysian family-controlled firms. In particular, in the case of Malaysia, there should be a balanced voicing power on the board of Malaysian family-controlled firms between family representatives and the independent directors. With the empirical results of this study as basis, policy makers are advised to incorporate a mandatory 1:1 ratio (for the best practices of corporate governance in Malaysia) of family representatives to independent directors on the board of Malaysian family-controlled firms. Empirical evidence in this study suggests that this 1:1 ratio allows Malaysian family-controlled firms value maximization. Fourth, current generally accepted corporate governance practices should consider restricting the appointment of family-related CEO and chairman on the board. Evidence in this study documented the first-ever finding that such family-specific practices are detrimental to family firm value. This finding also has policy implications for corporate governance policy makers worldwide that such family-specific traits need to be taken into account; they may need to be restricted and be applied to family firms in other countries.

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Research Award for Best Paper Award by *MFA (Malaysia Finance Association)* during the 16th Conference of MFA for the research paper titled "Do Malaysian Family-Controlled Firms Create Wealth for Investors? Within the Context of Corporate Acquisitions"

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CHAPTER 1 INTRODUCTION

In the present complex and turbulent environment, to gain a position with competitive advantage is often difficult for companies. Identification of factors that improve companies' performance allows better utilisation of resources to secure a better future for firms (Mazzi 2011). Among various factors that are significantly related to firm performance, ownership structure in firms remains a highly contentious issue.

Among numerous types of ownership structure, family owners, as an ubiquitous form of corporate governance structure, are found to be prevalent in the global capital markets worldwide; this contrasts with the findings of Berle and Means (1932), who found widely held corporations[1] to be a more common form of ownership structure. This type of family ownership dominates the ownership structure of publicly traded firms not only in the US (Anderson and Reeb 2003b) and Western Europe (Faccio and Lang 2002; Maury 2006) but also in the emerging economies. These corporations under the domination of family ownership are found to exert substantial influence over the economic landscapes of most nations (Astrachan and Shanker 2003; Alderson 2011; Poza 2009; PricewaterhouseCoopers 2012). Empirical evidence also reveals that family firms significantly differ from nonfamily firms across different dimensions. These dimensions include corporate governance structure of family firms (Siebels and Dodo 2012), family goals, family culture, transgenerational feature, and the way strategic business decisions are made.

Given the importance of family firms and the influence of the controlling family, the field of family business research has received increasing scholarly attention in recent

[1]Widely held corporations refer to corporations that have no controlling shareholders with block ownership.

years. A considerable number of studies have been directed toward family firms after the astounding findings presented by La Porta et al. (1999), followed by Claessens et al. (2000) and Faccio and Lang (2002). Consequently, the performance of family firms has gained burgeoning attention in the literature on business strategy and financial economics (Mazzi 2011).

Studies found that in comparison with nonfamily firms, the performance of family firms worldwide vary because of the diverse social practices, economic conditions, and institutional background of each country. For example, the performance of Japanese family firms is maintained through assimilation of capable managers into the family in the form of adoptions or marriages; in fact, these firms outperform the professionally managed family firms (Mehrotra et al. 2013). In Thailand, family firms perform marriages that add value to family firms, when the partners are from either prominent businesses or political families (Bunkanwanicha et al. 2013). On the other hand, studies on Italian family firms showed that Italian family firms are bad performers when the management of family firms persists within the same family for the next generation, instead of passing the managerial role to nonfamily professionals (Cucculelli and Micucci 2008). Other studies suggested that family firms performed better than nonfamily firms in the US (Anderson and Reeb 2003b; Lee 2006; Miller et al. 2007), Europe (Barontini and Caprio 2006), France (Sraer and Thesmar 2007), Japan (Saito 2008), Italy (Cucculelli and Micucci 2008), Canada (Villalonga and Amit 2006), Belgium (Hamadi 2010), and Chile (Martínez et al. 2007). In contrast, there were also evidence that found no relation between family ownership and firm performance, as reported by Chang and Shin (2007) for Korean *Chaebols* and Sacristán-Navarro et al. (2011) for Spanish listed firms.

Inferences about the effect of descendants' ownership on the performance of the family firms under their management also have been inconclusive. Some researchers found family firms performed better solely because of the founder effect (Cucculelli

and Micucci 2008; Villalonga and Amit 2006; Miller et al. 2007; Saito 2008). Conversely, Sraer et al. (2007) discovered that the good performance of family firms persisted for descendants' owned and managed family firms. These past findings on the effect of family ownership and management on firms' performance have been inconclusive. Overall, understanding how family contributes to family firm performance remains one of the main challenges faced in the area of research on family business (Basco 2013). These studies examining family firm performance are based on the accounting performance of family firms.

Agency framework has been frequently proposed to explain the link between family ownership and firm performance. It is a stylised fact that ownership structures affect the nature of agency problem between managers and shareholders (Claessens and Yurtoglu 2013). The inherent feature of owner-manager position and concentrated family ownership in family firms intrinsically mitigate conflicts between the owner and the manager, which leads to better firm value (Shleifer and Vishny 1997). This follows the notion of neoclassical *agency* theory proposed by Jensen and Meckling (1976), which is also known as the *principal-agent conflict theory* or *Agency Problem I*. Concentrated family ownership in addition to family managerial role becomes an inherent internal corporate governance mechanism that is beneficial to shareholders of family firms.

Despite the potential advantages of family ownership, the inherent feature of family owner-manager position and concentrated family ownership in family firms may also create a second potential conflict between the large, controlling family and the minority shareholders. This is also known as the *principal-principal conflict theory* (Agency Problem II) in family firms. Agency Problem II posits that concentrated family ownership at a certain level may lead to entrenchment of family owner-manager, resulting in the expropriation of minority shareholders' wealth (Fama and Jensen 1983a; Morck et al. 1988; Shleifer and Vishny 1997). The aim of maximising family

utility may dominate the aim of maximising the overall shareholders' wealth (Bertrand and Schoar 2003), through the realisation of private benefit of control.

As such, minority shareholder expropriation continues to be one of the corporate governance issues which attract extensive attention in emerging markets (Claessens and Yurtoglu 2013). The activities of expropriating the minority shareholders *can be* extensive, especially in emerging countries with low investor protection, weak corporate governance, and owners who have concentrated ownership stake (La Porta et al. 2000; Johnson et al. 2000; Dyck and Zingales 2004). It has been a continuous effort from policymakers and regulators worldwide to be concerned with the design of a corporate governance framework that can protect minority investors from the misbehaved and self-interested controlling shareholders and managers of the company (McCahery and Vermeulen 2013).

One available direct measure for the real act of possible minority shareholder expropriation activities is corporate acquisitions, which constitutes one stream of literature. Corporate acquisitions provide the advantage as a direct measure for evidence of agency problem (Shleifer and Vishny 1997; Faccio and Stolin 2006).[2] Specifically, the market performance of family firms are examined when family firms execute corporate acquisitions (Bhaumik and Selarka 2012; Caprio et al. 2011; Shim and Okamuro 2011; Bauguess and Stegemoller 2008; Bouzgarrou and Navatte 2013). These market performances of family firms subsequent to the announcement of

[2]Past studies (Claessens and Unit 1999; La Porta et al. 1999; Barontini and Caprio 2006; Carney and Child 2012) employed an indirect measure of expropriation to examine possible expropriating behaviour of companies worldwide through the ratio of cash flow rights and voting rights. Based on the measure of cash flow rights and voting rights, investors are claimed to be easily exposed to expropriation by the controlling owners because of the control enhancement mechanisms used by companies. (Cash flow rights reflect the level of financial stakes of the controlling families in a family-controlled firm. Control rights are taken to be the proportion of outstanding shares through which voting power can be exercised directly or indirectly by the controlling families.) However, there are concerns over deriving the precise quantum of a controlling shareholder's voting rights (Lemmon and Lins 2003; Claessens et al. 2000; Carney and Child 2012; Song et al. 2007; Lee et al. 2012). An important concern about these pre-existing studies is the reliance of the indirect measure—the ratio of cash flow rights and voting rights to infer the possibility of minority shareholder expropriation habit of the controlling owners.

corporate acquisition activities are also termed the wealth effect of corporate acquisitions on family firms.

The undertakings of corporate acquisitions are often used by self-interested insiders (manager-owner) to the detriment of outside shareholders (Jensen and Ruback 1983; Roll 1986; Andrade et al. 2001). The self-interested owner-manager expands the firm through corporate acquisitions beyond its scope of activity, which result in higher salary for the owner-manager, higher controlling power (Murphy 1985), or diversification of human capital risk (Amihud and Lev 1981b). The expropriation behaviour of the controlling owners has been shown in Korea (Bae et al. 2002) and India (Bhaumik and Selarka 2012). These nations are known for their weak corporate governance system. However, not all controlling owners in other nations with weak corporate governance system are self-interested and behave in such a way that expropriates the wealth of the minority shareholders. Related findings for the case of Belgium (Buysschaert et al. 2004) and Sweden (Holmen and Knopf 2004) reject this expropriation hypothesis.

Recent studies of wealth effect of corporate acquisitions for family firms reveal a contrastingly different interpretation when compared with past corporate acquisition studies (which do not consider specifically the effect of family owners). Past corporate acquisition literature suggests that acquiring firms (the acquirers) generally experience insignificant or negative wealth effect of corporate acquisition announcements. These studies jointly conclude that corporate acquisition decisions of the acquirers do not result in significant changes to the acquirers' market value. However, this is not the case when family firms are the acquirers. Studies show that acquirers that are family firms experience significant changes in firm market value, either positively or negatively when announcing their corporate acquisition decisions (As discussed in the forthcoming Chapter 3).

A dominant framework, known as *agency theory,* is employed by these studies to explain the phenomenon of significant announcement-period wealth effect experienced by family firms in the aforementioned corporate acquisition studies. Studies concluded that family firms perform value-enhancing corporate acquisitions, which is consistent with the notion of neoclassical *principal-agent agency theory* (*interest alignment hypothesis*) (Holmen and Knopf 2004; Ben-Amar and André 2006). The interests of family owners are well aligned with those of other nonfamily shareholders. However, some studies have found evidence that family firms perform value-destroying corporate acquisitions, whereas the controlling family gains private benefits at the expense of the minority shareholders, which is consistent with the notion of Agency Problem II—the *expropriation hypothesis* (Bae et al. 2002; Bauguess and Stegemoller 2008; Bhaumik and Selarka 2012). Subsequent studies continue to examine the wealth creation of corporate acquisitions within the context of family firms, with varied outcomes (as discussed in Chapter 3).

Malaysia, in this case, offers a suitable and unique setting for studies to be conducted to extend the understanding of family firms and family firm behaviour when it comes to corporate acquisitions. Malaysian family-controlled firms are both prevalent and notable among Malaysian publicly listed companies (World Bank Group 1999; Claessens et al. 2000; Carney and Child 2012) that wield considerable economic power in the country (Ngui 2002; Fan, Tan, et al. 2011; Claessens et al. 2000; Forbes 2012). Concentrated family ownership in addition to involvement in the management of the company is a common feature of Malaysian family-controlled firms. Minority shareholders under such conditions have little say in the management, ethics, and practices of these types of organisations (Reed 2002). Furthermore, Malaysia is in an active position with corporate acquisition activities. The country has accounted for the highest percentage of total deals and transaction value in the Southeast Asian region since the year 1990 among other examined Southeast Asian countries (Metwalli and Tang 2009, 2002). Unfortunately, no significant studies have been conducted to find

out if corporate acquisition activities are subject to misappropriation and abusive behaviour by Malaysian family-controlled firms.

Given that the ownership structure of the majority of Malaysian publicly listed firms is characterised by concentrated shareholdings of controlling owners, the protection of minority shareholders becomes inherently critical. In the year 1997, one of the well-known cases involving expropriation of minority shareholders in Malaysia was devised by the high-profile Ekran Bhd under the controlling owner Ting Pek Khiing (Gabriel 2010). During the year of economic crisis in 1997, Ekran Bhd had advanced RM 713 million "refundable disbursement sum" to Ting Pek Khiing through a related party transaction. The transaction was later terminated, but the payment was not fully settled, resulting in Ting Pek Khiing owing some RM 408 million to Ekran Bhd. Ting had gradually cut his stake in Ekran Bhd from over 30% in 2002 to 20% in 2006 and to 1.7% in 2009. The recoverability of that debt owed by Ting Pek Khiing continued to remain unresolved. He was declared a bankrupt on 28 October 2010 by the Kuala Lumpur High Court. Subsequent recurring cases suggest that Malaysian family owners performed activities and strategies, which have placed the minority shareholders in a disadvantaged position. Moreover, these cases happen even after the establishment of Minority Shareholder Watchdog Group (MSWG).[3] However, the real act of expropriation through corporate acquisitions is scarcely investigated empirically for the case of Malaysia.[4]

The aforementioned recurring events in one way or another suggest the negative relation between Malaysian family owners and firm value because of expropriation activities by the controlling family. However, beyond these anecdotes, there are little empirical evidence on the relevance of Malaysian family ownership and minority shareholders. This study intends to fill this gap of knowledge for the case of Malaysia.

[3]MSWG was established as a government effort in the year 2000 to protect the interests of minority shareholders through shareholder activism.

[4]One study has investigated if related party transactions in Malaysia are value destroying to shareholders' wealth (Wahab et al. 2011).

Unlike those in other nations, Malaysian family-controlled firms are situated in unique government and institutional settings. As a previous territorial member of the British Empire before the year 1957, Malaysia differs significantly from other former British colonies. Malaysia is now a federal constitutional monarchy and an Islamic nation, comprising multi-ethnic and multi-cultural communities with four main ethnic groups: Malays, Chinese, Indians, and other indigenous people.

Operating in a multi-ethnic and multi-cultural community, Malaysian family firms embrace the culture of rent seeking as encouraged by the government (Gomez and Jomo 1999). Malaysia has been claimed to be the only country known in the world with racial discrimination explicitly written in its constitution, which results in the emergence of *Bumiputera* ("Son of Soil") ideology (The Economist 2003).[5] Malaysia has taken an unusual step by undertaking an affirmative action program—the New Economic Policy (NEP), in the year 1971 with the aim of reducing ethnic economic inequality (Snodgrass 1995). Since the implementation of the NEP in the year 1971 (Kennedy 2002), the privileged status of *Bumiputera* has been extended to the listing requirements of Bursa Malaysia.[6] Adhering to the listing requirements, all firms listed on the Malaysian stock exchange must have at least 30% of *Bumiputera* ownership of equity. However, in April 2009, the 30% *Bumiputera* equity requirement was removed for 27 service subsectors to stimulate economic growth and to attract more foreign direct investments (Chang 2009).

The NEP program favours government-linked companies or state agencies by awarding and approving businesses to fulfil the political objective of achieving economic parity

[5]The *Bumiputera* interests and special positions are safeguarded by the King of Malaysia (*also known as* Yang di-Pertuan Agong) as granted by *Article 153* of the *Constitution of Malaysia.*
[6]Previously known as the Kuala Lumpur Stock Exchange.

between the Bumiputera and other ethnics (Gomez and Jomo 1999). Consequently, family firms that are not government linked or state agencies have to build closer ties with the government to obtain businesses and award of projects for business survival (Gomez and Jomo 1999). Such distortions do not have such a significant effect to deter the growth process of the country (Rasiah and Schmidt 2010). However, these rents or favours obtained from the government or government-linked corporations may encourage expropriation behaviour of family firms. Family firms who receive favours from the government or government-linked corporations may use these rents and favours in an inefficient manner to serve the private benefits of the controlling family such as for empire building purposes (Gomez and Jomo 1999; Johnson and Mitton 2003).

Given that the ownership structure of the majority of Malaysian publicly listed firms is characterised by concentrated shareholdings of controlling owners, the protection of minority shareholders becomes inherently critical. The Malaysian government has been continuously putting in effort to set up an effective investor protection system and corporate governance system for the country's capital market. Different from other East Asian countries, the Malaysian market has been the only emerging market of East Asia in which the government has institutionalised shareholder activism through the establishment of *Minority Shareholder Watchdog Group* (MSWG) in the year 2001 (Azizan and Ameer 2012).[7] This has resulted in the Malaysian institutional investors emerging as influential entities that play a significant role in corporate governance. Malaysia has also proven to be a regional leader in corporate governance within the Asian region, as reported in *Corporate Governance Report on Observance of Standards and Codes 2012* (World Bank 2012). In terms of investor protection regime, Malaysia continues to receive positive reports on its corporate governance practices; Malaysia retained its fourth position in terms of investor protection for the sixth consecutive

[7]MSWG represents the five largest institutional funds in Malaysia, which are the Employee Provident Fund, Lembaga Tabung Angkatan Tentera, Lembaga Tabung Hajis, Social Security Organization, and Permodalan Nasional Berhad.

year (World Bank 2009, 2011, 2012), which still requires further improvement (The Star 2013b).

Overall, Malaysia has strongly defined formal legal rights, creditor rights, minority shareholders' legal protection, and disclosure requirements of listing corporations that are far better than those of most advanced countries (Claessens and Yurtoglu 2013). However, similar to other emerging countries, the degree of enforcement of legal rights still falls behind those of Hong Kong, Singapore, Taiwan, and Thailand but better than Indonesia (Claessens and Yurtoglu 2013). With the weak external corporate governance (poor market for corporate control) and lack of legal protection of shareholders and creditors, a major agency problem may arise (Lins 2003; Claessens and Yurtoglu 2013; Claessens et al. 2002; Shleifer and Vishny 1997).

In view of the Malaysian government's continuous effort in improving the corporate governance system of Malaysia, such effort may hinder the controlling families of Malaysian family-controlled firms from engaging in minority shareholder expropriation activities. An empirical question naturally arises as to whether the current corporate governance framework in Malaysia and the government's effort (with the formation of the MSWG) are effective in hindering Malaysian family firms from activities that expropriate the minority shareholders. Hence, the motivation to conduct this study arises from this literature gap. This is followed by the construction of the relevant research objective and research questions to extend the existing empirical evidence and knowledge within the literature of corporate acquisition, family firms, and also Malaysia.

1.2 Research Objectives

The objective of this study is to identify family-related traits that are important determinants of the market value changes in Malaysian family-controlled firms during corporate acquisitions.

1.3 Research Questions

Research Question 1: Do Malaysian family-controlled firms undertake value-enhancing or value-decreasing corporate acquisitions?

Research Question 2: Is family ownership an important corporate governance characteristic to determine whether Malaysian family-controlled firms perform value-enhancing or value-decreasing corporate acquisitions?

Research Question 3: Are family-related traits important determinants of the market value changes in Malaysian family-controlled firms when undertaking corporate acquisitions?

1.4 Research Significance

Family owners were found to affect family firm value differently depending on the legal environment, culture, and regulation of the region (Faccio et al. 2001; Maury 2006). Hence, to seek deeper understanding about family business issues from the standpoints of multiple cultures as well as a wide variety of social and economic systems around the world is important (Strike 2012; Astrachan 2010). This can be done through focused-country studies for family firms, which offers more advantages than cross-country studies (Miller et al. 2007; Cucculelli and Micucci 2008; Fan, Wei, et al. 2011). Researchers can control data quality and analyse the impacts of key institutional factors on various issues, while holding constant other factors that might be difficult to disentangle in cross-country studies (Fan, Wei, et al. 2011).

Notwithstanding the evidence of preliminary studies (as discussed in Chapter 3), several gaps in the existing body of knowledge are identified in this study. Overall, the findings in this study contribute to the scholarship, policy, and practices while answering the research questions mentioned earlier.

First, the recurring events, as discussed earlier, suggest a negative relation between Malaysian family owners and firm value because of expropriation activities by the controlling family. However, beyond these anecdotes, there are little empirical evidence on the relevance of Malaysian family ownership and minority shareholders. Hence, an empirical question arises: Do Malaysian family-controlled firms perform minority shareholder expropriation activities through corporate acquisitions? Evidence within the context of Malaysian family firms in this field is non-existent to date. This study is the pioneer in exploring knowledge about the wealth effect of corporate acquisition activities of Malaysian family-controlled firms. Unlike its counterparts in

Asia, Malaysian family-controlled firms, on average, have been found to perform value-enhancing corporate acquisitions.

Second, the prevalence of concentrated family shareholdings raises a corporate governance question as to whether it is harmful or beneficial to firm performance, which remains theoretically and empirically ambiguous. Few studies in the field have recent proposed and provided empirical evidence of a nonlinear relation between family ownership and firm performance (Isakov and Weisskopf 2014; Villalonga and Amit 2006). However, these current studies have used data from the developed markets. Given the significant existence of concentrated family ownership in the emerging economies, country-level studies are necessary for better understanding of this topic (Fan, Wei, et al. 2011). This study is the first to show that a nonlinear relation exists between family ownership and firm performance, within the context of Malaysian family firms. Evidence raise concerns among policy makers that restrictions are needed to limit the total ownership level of the controlling family in Malaysian family-controlled firms. Findings reveal that the value-maximising total family ownership should be no more than 50%.

Third, within corporate acquisition literature, there have been very little attention given to empirically documenting the impact of family-related traits on the wealth effect of corporate acquisitions to date (Bouzgarrou and Navatte 2013). Only few studies incorporated family-related traits within the study of corporate acquisition. It is empirically unknown whether specific family-related traits are the main contributors to the wealth effect of corporate acquisitions. There is only a study by Ben-Amar et al. (2006) that considers the situation where family-CEO (CEO who is family-related to the family owner) is present in the family firms. Their family firm sample comprised firms in Canada, a developed Western economy. This study fills the literature gap by being the first to incorporate more comprehensive family-related traits, which have not been examined within the literature of corporate acquisition studies. These family-related

traits include family-CEO, family representatives on the board, founder-CEO, descendant-CEO, and family-related chairman and CEO on the board.

Fourth, this study is the first that showed unstudied family firm features, which have yet to be identified or examined within the literature of family firms. It is common to observe the presence of CEO and chairman who are family related on the board of Malaysian family-controlled firms. However, such fact has never been documented or examined within family firm literature. This study is the first that documents such fact regarding this special board structure of family firms in Malaysia.

Fifth, this study is the first that provides empirical evidence and new insight that family-related CEO and chairman are a significant determinant of the announcement-period wealth effect of corporate acquisition for family firms, based on the sample of Malaysian family firms. More precisely, the presence of family-related CEO and chairman exhibits a significant negative relation with the announcement-period stock returns of Malaysian family-controlled firms. The evidence has furthered our understanding on the significant role of family-related CEO and chairman on family firm value. Whether such relation and finding remain applicable to family firms from other economies is empirically unknown. Whether such practices are upheld by family firms from other economies is also empirically unknown. However, the findings provide an important implication within the corporate governance literature and for policy makers. Specifically, it has been generally accepted to have the role of chairman separated from that of the CEO on the board for better corporate governance practices and better independence of the chairman on the board. Nonetheless, when the roles of CEO and chairman on the board are separated, and if they are family related, the independence of the chairman on the board and its corporate governance function are somehow lost. The findings provide new insight that there is a need to further examine the current corporate governance practices, where family-related CEO and chairman

on the board should be avoided. Such family-specific feature is shown in this study to be a value-destroying feature of Malaysian family-controlled firms.

Sixth, this study is also the first that empirically shows that descendant-CEO is an important determinant of the announcement-period stock returns of family firms, within the literature of corporate acquisitions. The findings reveal a significant positive relation between descendant-CEO and the stock returns of family firms during the period of corporate acquisition announcements based on the sample of Malaysian family-controlled firms. This implies that descendants are actually capable of making good investment decisions that create value for Malaysian family-controlled firms. The act of choosing family members to take over management positions has been generally recognized as an altruistic behaviour of family owners or the *Fredo effect* (Kidwell et al. 2013), which is known to be detrimental to the company (Chua et al. 2009; Bertrand and Schoar 2006). However, the findings in this study provide further clarification on current unwavering issues in family firms of whether to pass ownership (and managerial role) to descendants, which would be beneficial to the practitioners and investors (Deloitte Growth Enterprise Services 2013; Poutziouris et al. 2013; KPMG 2011; PricewaterhouseCoopers 2012), within the context of Malaysia specifically.

Seventh, this study is also the first to document a significant nonlinear relation between family representatives on the board (relative to independent directors on the board) and announcement-period stock returns of Malaysian family firms, within the literature of corporate acquisitions. The presence and domination of family members on the board is one of the common features observable in family firms, which currently remains understudied (Collin and Ahlberg 2012; Jameson et al. 2014). The findings further strengthen our current knowledge available in corporate acquisition literature, where a nonlinear relation between family representatives on the board and firm value exists. The findings have policy implications for policy makers, where restricting

participation of family members (relative to independent directors) on the board of Malaysian family-controlled firms is needed.

Furthermore, this finding has important policy implications for the existing corporate governance practices in Malaysia for family firms. According to the current recommended corporate governance practices in Malaysia, it is mandatory to have one third of the total number of directors on the board of publicly listed firms as independent directors. Evidence in this study provides a feasible benchmark applicable specifically to family firms of Malaysia. Evidence reveal that the proportion of family members on the board relative to the proportion of independent directors on the board is an important factor when considering the required proportion of independent directors on the board. Policy makers should consider that there must be a balance between the number of independent directors on the board and the number of family representatives on the board for Malaysian family-controlled firms. Results suggest that a ratio of 1:1 is the ideal ratio of independent directors on the board to family representatives on the board.

Eighth, this study empirically showed a negative relation between the proportion of independent directors on the board and wealth effect of corporate acquisitions for Malaysian family-controlled firms. This is the first evidence documented within the context of Malaysian family-controlled firms that high proportions of independent directors on the board are detrimental to family firms. Existing Malaysian studies report a nonsignificant relation between the proportions of independent directors on the board and Malaysian firm value as a result of no specific consideration given to the influence of family owners. The findings shed further light on our understanding about the governance role of independent directors for Malaysian family firms.

1.5 Organization of the Thesis

The remainder of the thesis is organised as follows. Chapter 2 discusses the institutional background and characteristics of Malaysian family-controlled firms. Chapter 3 presents the theoretical framework and literature review related to the short-term wealth effect of corporate acquisition announcements, within the context of family firm studies. Chapter 4 discusses the hypotheses development and displays the conceptual schema for the developed hypotheses. Chapter 5 presents the methodology used to examine the hypotheses. Chapter 6 presents the results and analyses. Chapter 7 presents the conclusion, limitations, and suggestions for future research.

CHAPTER 2 MALAYSIAN FAMILY-CONTROLLED FIRMS

2.1 Introduction

Family firms are ubiquitous worldwide (Poza 2009). Many people have the perception that family-controlled firms are small and medium enterprises (SMEs) which are 100% owned and managed by the owners and their related family members. It is also generally perceived that widely-held corporations are a common form of ownership structure (La Porta et al. 1999). The landmark study of La Port et al. (1999) has fundamentally revised this conventional perception to a new level of knowledge. Publicly listed firms in both developed and developing countries are found to be prominently controlled and owned by families. Studies further demonstrate that the controlling families of these publicly listed family-controlled firms constitute a persistent and prevalent class of large, concentrated shareholders (Claessens et al. 2000; Lins 2003; Carney and Child 2012). These substantial group of family owners and family-controlled firms play dominant role in countries around the world, in terms of their significant economic contribution to the countries (Siebels and Dodo 2012).

More than half of the East Asian publicly listed companies are family-controlled, with controlling families remaining the largest group of dominant owners of Malaysian publicly listed companies (Carney and Child 2012; Claessens et al. 2000; World Bank Group 1999).[8] Significant corporate wealth in East Asia[9] has been found to concentrate

[8] The minimum threshold for the percentage of ownership of the controlling owners is at 20%. At the minimum threshold of 10%, the reported statistics for the controlling families become higher.

among only a few families. The contribution of these Asian family businesses to the overall economic growth is predicated on their ability to grow successfully (Tong 2009). Managers of these closely held firms were also found to be relatives of the controlling shareholders' families (Claessens et al. 2000; Thillainathan 1999; Lins 2003; World Bank 2005; Carney and Child 2012). Even when family-controlled firms are transferred to publicly listed vehicles, the controlling owners and family members remain as the major shareholders of the company while dominating the senior managerial roles in these publicly listed companies. The prevalence of family-controlled firms worldwide as the dominant controlling owners in the capital markets around the world, with substantial influence over the economic landscape of most nations is indisputable (Carney and Child 2012; Astrachan and Shanker 2003; Alderson 2011; Poza 2009)

Understanding how family contributes to family firm value remains as one of the main challenges faced by the family business study (Basco 2013). In this study, the value creation of family firm is examined through a specific context by examining the relation between family ownership and valuation effect (*wealth effect*) of corporate acquisition activities. Similar studies have been examined earlier for family-controlled firms of developed and western countries (Bae et al. 2002; Ben-Amar and André 2006; Bigelli and Mengoli 2004; Buysschaert et al. 2004; Faccio and Stolin 2006; Feito-Ruiz and Menéndez-Requejo 2010; Holmen and Knopf 2004). These studies have been undertaken for family firms in developed countries, each with its different culture, corporate governance, legal protection, social norm and ownership mechanism. No consensus has been reached whether corporate acquisition activities of family-controlled firms are value-enhancing or value-decreasing.

Overall, these studies have attributed the influence of family ownership on the wealth effect of corporate acquisition activities to two possible rationales – *Interest alignment*

[9] The examined East Asian countries include Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand. They define concentrate shareholdings based on the shareholdings of the controlling shareholders at the minimum 20% threshold.

hypothesis or the *expropriation hypothesis*. The neoclassical *Interest alignment hypothesis* predicts that managers who own larger equity blocks in a company are less likely to take actions that reduce the value of their shares (Jensen and Meckling 1976). Family controlled-firm provides such unique platforms to examine the consolidation effect of family ownership and managerial role on firm value due to its unique features which are non-existent in other profit-making organisations.[10]

On the contrary, finance literature highlights the potential conflicts of interests between the controlling owners and firms' minority shareholders – *expropriation hypothesis,* which results in owners opting for investment strategies that have value-destroying effects on the wealth of minority shareholders (Villalonga and Amit 2006; André et al. 2012; Croci and Petmezas 2010). Previous studies for developed countries posit that controlling families of the family firms use their power and influence to make skewed corporate acquisition decisions in order to extract personal or private benefits from the family-controlled firms (Faccio and Stolin 2006; Shleifer and Vishny 1997; Bae et al. 2002).

Malaysian family-controlled firms offer a unique platform to explore the countervailing notions of *interest alignment hypothesis* and *expropriation hypothesis*. Several features distinguish Malaysian family-controlled firms from family-controlled firms of other countries, in terms of corporate ownership structures, corporate governance structures and institutional settings. The discussions of these features are the focus of this chapter in *Section 2.2*. Bearing all these factors in mind, we need to answer an important empirical question in the corporate scene of Malaysia: when Malaysian family-controlled firms embark on corporate acquisition activities, do they expropriate the wealth of minority shareholders or do they enhance the wealth of all the shareholders?

[10] Chapter 3 discusses these features in relation to agency problem. Mazzi (2011), Anderson and Reeb (2003), Schulze et al. (2001) and Chrisman et al. (2004) also offer detailed discussions on the beneficial and non-beneficial features of family-controlled firms.

The findings could be different from those found in family-controlled firms in developed countries, which extend previous conflicting international evidence.

2.2 Background of Malaysia

As a previous territorial member of the British Empire before the year 1957, Malaysia differs significantly from other former British colonies. Malaysia is now a federal constitutional monarchy and an Islamic nation, comprising multi-ethnic and multi-cultural communities with four main ethnic groups – Malays, Chinese, Indians and other indigenous peoples. Malays have always constituted the dominant ethnic group of the country. Recent census estimated the Malaysian population to be 26.13 million, consisting of *Malays* (55%), *Chinese* (24%), *Indians* (7%) and *others* (14%) (Economic Planning Unit - Ministry of Finance & Department of Statistics 2013). All the ethnic groups have their own distinct languages, cultures and religions, with *Bahasa Malaysia* as the national language. The *Malays* of the country and the indigenous peoples from the states of Sabah and Sarawak are collectively known as *Bumiputera* ("Son of Soil"). [11]

Malaysia has been claimed to be the only country known in the world with racial discrimination explicitly written in its constitution, which results in the emergence of *Bumiputera* ideology (The Economist 2003). The *Bumiputera* ideology reflects the continuous efforts of the Malaysian government to equalise the prevalent economic disparities among different ethnic groups in Malaysia. This social engineering has been undertaken through adoptions of different programmes to achieve social cohesion, stability and order in the country. The above-mentioned societal restructuring was initiated by the Malaysian Government in response to the extended racial violence against the Chinese Malaysians as a result of the 13 May 1969 incident. One of such

[11] The *Bumiputera* interests and special positions are safeguarded by the King of Malaysia (*also known as* Yang di-Pertuan Agong) as granted by *Article 153* of the *Constitution of Malaysia.*

restructuring efforts was the implementation of New Economic Policy (NEP) since the year 1971; the main intention was to reduce the economic gaps among the different ethnic groups in Malaysia (Kennedy 2002).

In spite of the Government efforts, statistics revealed that at the end of the 25-year NEP period in the year 1995, the proportion of the Chinese corporate equity ownership over other ethnic groups remained high, constituting a total of 40.9% (Gomez 1999). Through the governmental interventions, preferential treatments have been given to the *Bumiputera* in many aspects, including the corporate sector. Notwithstanding the foregoing, the Malaysian Chinese, who make up less than 30% of the national population, command a huge presence in the corporate sector.

The Malaysian-Chinese influence on the economy is also mirrored by the significant number of Chinese-controlled publicly listed companies among the top 100 publicly listed companies on the *Kuala Lumpur Stock Exchange*[12], based on the information from KLSE Annual Companies Handbook 1996 (Gomez 1999). As high as 40% of these publicly listed companies are in the hands of Malaysian Chinese who hold majority ownership. After more than a decade, the Malaysian Chinese-controlled listed firms retained the dominant positions among the top publicly listed Malaysian companies in the year 2012. Among the top 100 publicly listed Malaysian companies, ranked according to market capitalisation as at 31 October 2012, 30 of them were Chinese-controlled family firms. These statistics again provide valuable insights that as of today, Malaysian Chinese remain a force to be reckoned with in the Malaysian economy as well as the capital market.

[12] It is currently known as *Bursa Malaysia* since 14 April 2004.

2.3 Features of Malaysian Family-Controlled Firms

2.3.1 Introduction

This research work defines Malaysian family-controlled firms as a company where management as well as the largest equity stake are both held by a controlling family. This is in accordance to the highlights in past family firm studies that one of the identical features associated with a family firm is the double role of the controlling family as the owner(s) and the manager(s) in a company (Claessens et al. 2000; Thillainathan 1999; Lins 2003; World Bank 2005; Carney and Child 2012; Cucculelli and Marchionne 2012). Furthermore, in line with Miller et al. (2007) and claims of other previous family firm studies (Bauguess & Stegemoller, 2008; Mehrotra & Morck, 2013; Villalonga & Amit, 2006) true family businesses include more than one family member as major owners or managers. Bursa Malaysia listing requirement also specifically requires the disclosure of any family relationship of the director and chief executive with any director and/or major shareholder of the listed company, pursuant to Main Market *Bursa Listing Requirements – Chapter 9 Continuing Disclosure*, Section 9.19. The definition of the term *family* is also specifically defined by *Bursa Listing Requirements- Chapter 1, Part A Section 1.01*. In short, the term family refers to an individual who is in relation to a person as spouse, parent, child (including adopted child and step-child) and spouse of the child, brother or sister and spouse of the brother or sister.

To be precise, this research identifies Malaysian family-controlled firms based on five main aspects. To qualify as a Malaysian family-controlled firm, the controlling family of the company must: (i) have ownership of the firm; (ii) manage the firm (as proxied by the holdings of any position on the board); (iii) have intergenerational successions, *if any*; (iv) be a publicly listed company on the *Main Market*[13,14] *of Bursa Malaysia*

[13] The *Main Market* was previously known as *Main Board* before 3 August 2009.

[14] The reason for choosing publicly listed companies is due to the ease of obtaining publicly available information when conducting studies on Malaysian family controlled firms; another reason is availability of

(previously known as *Kuala Lumpur Stock Exchange* before 14 April 2004); (v) be the largest shareholder of the company. [15]

More precisely, a publicly listed company with a single controlling owner-manager is not considered as a Malaysian family-controlled firm (Villalonga and Amit 2006; Bauguess and Stegemoller 2008; Mehrotra and Morck 2013). A controlling single owner-run firm such as *AirAsia* in Malaysia is not a family firm in any meaningful sense of the term. A similar case of a USA firm is *Microsoft*, *Facebook*, *Google* or *Berkshire Hathaway*. The controlling individual owner may plan to cash out in the future instead of transferring the ownership and control to the immediate descendants; the owner may also decide to liquidate the shareholding when there are no heirs apparent.

2.3.2 Presence of Malaysian Family-Controlled Firms in Malaysia

In addition to the significant presence of Malaysian Chinese in the corporate sector and other domains of the national economy, publicly listed Malaysian family-controlled firms are both prevalent and notable among Malaysian publicly listed companies. Among the top 100 publicly listed Malaysian companies, ranked according to market capitalisation as at 31 October 2012, the Malaysian family-controlled firms constituted 32% (32 companies). [16] Additionally, based on a detailed examination of 758 publicly listed companies on the Main Market of Bursa Malaysia, the finding revealed that Malaysian family-controlled firms made up 33.59% of the total market capitalisation of the 758 publicly listed companies. This figure works out to RM 309,060.25 million for family firms over the total of RM 919,881.91 million for the 758 listed companies as at

documented significant presence and the impact of these companies on the country's economy, as aforementioned.

[15] This is to ensure the absolute control of the dominant family over the family-controlled firms, in terms of ownership and management of the business. Family ownership is treated as the total corporate equity ownership held by *all* related family members. Hence the total family ownership is accumulated among those that are held by related family members.

[16] The 32 Malaysian family-controlled companies are listed in the **Appendix A1 Table A1.1**.

5 December 2012[17], which is more than a quarter of the total market capitalisation. Research conducted by the World Bank Group (1999) also disclosed that the majority of publicly listed companies were controlled by a small group of related parties. The five largest shareholders of the ten largest companies by market capitalisation were found to own 60.4% of the total outstanding shares, with 67.2% of shares in the hands of families. Similarly, Claessens et al. (2000) also disclosed that 67.2% of the 238 samples of Malaysian publicly listed companies were family-controlled firms. According to Claessens (1998), in 1996, the top five Malaysian families controlled 17.3% of total market capitalisation; the top ten families controlled 24.8% of total market capitalisation; and the top 15 families controlled 28.3% of total market capitalisation of the Malaysian publicly listed companies.

The significant presence of Malaysian family-controlled firms in terms of market capitalisation also demonstrates that family firms wield considerable economic power in the country. Ngui (2002) documented that Malaysian family-controlled firms contributed more than half of Malaysia's Gross Domestic Product (GDP). This is further supported by subsequent report of *Credit Suisse* [18] that the total market capitalisation of Malaysian family firms ended year 2010 accounted for 67% of the country nominal GDP (Fan, Tan, et al. 2011). Research of Claessens et al. (2000) revealed that the market capitalisations of the top 15 publicly listed Malaysian family firms covered 76.2% of the country's GDP. In comparison, the wealth of the top 15 American families in the year 1998 covered only 2.9% of the country's GDP. These figures further suggest that a relatively small number of families effectively control the country's economy. Recent list of *Malaysia's 40 Richest* by Forbes (2012) revealed that the controlling Malaysian families of the publicly listed Malaysian family-controlled firms supplied 23 out of the 40 richest Malaysians (57.5% of the 40 richest Malaysians in the year 2012). This revelation again shows the immense influence of the controlling families of the publicly listed Malaysian family-controlled firms on the country's economy.

[17] Data sourced from database *CapitalIQ*.
[18] The *Credit Suisse* Group is a global financial services company advising clients in all aspects of finance.

2.3.3 Ownership Characteristics

Another feature of Malaysian family-controlled firms is the concentrated ownership of the controlling families in Malaysian family-controlled firms. Findings of past studies show that the equity stakes of the controlling families in Malaysian family-controlled firms, on an average, are in excess of 40% (Amran and Ayoib 2010). This figure far exceeds the generally perceived minimum threshold of 5% shareholdings held by a blockholder. Studies by Amran and Ayoib (2010) documented family ownerships over the 2003–2007 period; they recorded an average of 42.79% shareholding for the sample firms, with the maximum shareholding hitting a high of 84.13%. Similarly, based on a study done by Ibrahim and Samad (2011a) from the years 2002 to 2011. The outcome showed that the shareholdings of controlling families in family firms were on average more than 40%; the maximum controlling family ownership was 88.55%. Again, these valuable data reveal that ownership by controlling families in Malaysian family-controlled firms are highly concentrated, which can reach as high as 80% of shareholding in a company.

The owner-manager structure is another significant feature observable in Malaysian family controlled firms. In the Malaysian setting, the owners, the board of directors and the senior managerial positions[19] are often assumed by the same individuals or a group of related family members. Additionally, the management groups (and their family members) of the companies of emerging markets, including Malaysia, have frequently been found to be the largest shareholders of family-controlled companies (Lins 2003). The active involvement of controlling families in the management of family firms have been documented in extant studies (La Porta et al. 1999; Claessens et al. 2000; Faccio and Lang 2002; Lins 2003; Thillainathan 1999; Carney and Child 2012; World Bank Group 1999). Specifically, Claessens et al. (2000) documented that 94.6% of Malaysian family-controlled firms maintained an owner-manager structure based on ownership

[19] Senior managerial role refers to the position of CEO, managing director or chairman.

data of the year 1996; Carney et al. (2012) recorded 70.9% based on more recent ownership data of the year 2008.[20]

The controlling family members have both the majority equity stakes in the Malaysian family-controlled firms, and they are also involved in the management of the companies. Specifically, the involvement of a controlling family in the management of a family-controlled firm is observed via the holding of managerial positions on the board as CEO, chairman, or executive directors. This overall picture signifies the controlling position of a family in owning and managing a family-controlled firm, even though the publicly listed family-controlled firm is no longer 100% owned. In the case of only one individual owning and managing the company, this individual must be the descendant of the previous controlling owner(s).

The sharing of ownership and managerial role by a controlling family in Malaysian family-controlled firms is a common observable practice. There are cases when parents (or uncles/aunties) normally own the largest equity stakes in Malaysian family-controlled firms while the children (or nieces/nephews) hold managerial positions in the company as proxies through their positions on the board.[21] In many cases, the parents also hold senior managerial positions in the company. There are also cases when brothers and sisters or husbands and wives together own equity stakes of a company[22], with at least one or two or more of them taking the managerial roles.

[20] Even though recent findings revealed a decreasing trend of Malaysian family-controlled firms dominance in the corporate sector, family ownership have continued to remain as the dominant form of ownership in comparison to others (Carney et al. 2012)

[21] Examples of such Malaysian family-controlled firms include the YTL group, Chee Wah Corporation Bhd, Berjaya Group, etc.

[22] Examples of such Malaysian family-controlled firms include The Store Corporation, Kwantas Corporation Bhd, Supermax Corporation Bhd, etc.

Another observable practice among Malaysian family-controlled firms is this: one family member holds a senior managerial role while another related family member owns the largest equity stakes in the company.[23] For such cases, one of the parents (uncle) normally holds the largest equity stake in the company and at least one of the children (nephew/niece or son-in-law) assists the family with managing the Malaysian family-controlled firms. Furthermore, it is commonly found one or more of the family members to be the founder(s) of a publicly listed Malaysian family-controlled firm.[24] Such information is disclosed in the *Profile of Director* section of the annual report.

2.3.4 Mandatory Disclosures of Equity Ownership in Malaysia

When determining family ownership in a family firm, past studies (La Porta et al. 1999; Claessens et al. 2000; Faccio and Lang 2002; Lins 2003; Faccio and Stolin 2006) considered both direct and indirect shareholdings held by *all* related family members of the controlling family. Accordingly, these studies have applied a minimum threshold of total family shareholdings either at 10% or 20%, with the rationale that these levels of shareholdings provided significant extent of control over the company. La Porta et al. (1999) mentioned that it is common for most countries to implement mandatory disclosure of 10% equity ownership or even lower, allowing the regulatory authorities to examine such information. In France, Germany and Spain, owners of firms holding a minimum of 5% equity must disclose their identities. The threshold of mandatory disclosure of shareholdings in Italy is 2% while that of the United Kingdom is 3% (Faccio and Lang 2002).

[23] Examples of such Malaysian family-controlled firms include the Genting Group, the Lion Group, Cahya Mata Sarawak Berhad, etc.

[24] Examples of such Malaysian family-controlled firms include Press Metal Bhd, Supermax Corporation Bhd, Fiamma Holdings Bhd, DKLS Industries Bhd, etc.

In Malaysia, the threshold of mandatory disclosure of shareholdings in all publicly listed companies is a minimum of 5%, which is the aggregate of direct and indirect interests. The identities of the shareholders and the actual total shareholdings in excess of 5% are to be disclosed in the company annual reports, in pursuance of *Chapter 9 – Continuing Disclosure Section 9.25 of Bursa Listing Requirement*. These shareholders are deemed to be *substantial shareholders* of the publicly listed firms. The definition of s*ubstantial shareholder* is given in *Section 69D of Companies Act 1965*: a *substantial shareholder* can be an individual or a corporation (whether listed or unlisted) who holds no less than an aggregated 5% of total voting rights in a company. Publicly listed Malaysian family-controlled firms also need to comply with this mandatory disclosure.

Consequently, this requirement of mandatory disclosure in conjunction with *Section 134(12)(c) of the Companies Act 1965* facilitates studies of publicly listed Malaysian family-controlled firms, since data of aggregated family ownership among related family members become available from company annual reports. In precise, *Section 134(12)(c) of the Companies Act 1965* requires that the total indirect equity stakes of *substantial shareholders* that are held by other related family members in the family-controlled firm are mandatory to be disclosed. The details of aggregated family ownership can be obtained from the *Shareholdings Analysis* section of the company annual report, which is publicly accessible.

2.3.5 Ownership Mechanisms and Structures

It is important to understand the mechanisms through which Malaysian families broaden and strengthen their control over publicly listed Malaysian family-controlled firms. As aforementioned, the controlling families normally hold equity stakes in Malaysian family-controlled firms via *direct shareholdings*, *indirect shareholdings* or a

combination of both. The cumulated direct and indirect ownerships among related family members gives rise to the large combined equity stakes held by the controlling family. Past studies have treated these *cumulated* large equity stakes among related family members as the total family ownership (La Porta et al. 1999; Claessens et al. 2000; Villalonga and Amit 2006; Claessens et al. 2002)[25].

In addition to direct shareholdings, the controlling families indirectly own family-controlled firms through private firm(s), publicly listed firm(s) or direct equity stakes held by other related family members. The mandatory disclosures of a substantial shareholder's indirect shareholdings in a company through private or publicly listed firms is only applicable when the substantial shareholder is *deemed to be interested* in the private firms or the publicly listed firms mentioned. In more precise words, the substantial shareholder is deemed to have indirect interest in the company through either private or publicly listed firms when that substantial shareholder's total equity stakes in these private or publicly listed firms are not less than 15%. This is in accordance with *Section 6A(4) of the Companies Act 1965* in Malaysia.

In East Asian countries, control of publicly listed family firms is harnessed through various ownership mechanisms, including *pyramiding*, *cross-holdings* or *different classes of shares with superior voting rights* (Claessens et al. 2000; La Porta et al. 1999; Claessens et al. 2002; Carney and Child 2012). These ownership mechanisms have also been referred to as control enhancing mechanisms, which lead to discrepancy of the controlling owners' cash flow rights[26] and control rights[27] (voting rights) in a publicly listed company. To be precise, the cash flow rights of controlling families are diluted due to the presence of multiple intermediate firms along the chain of ownerships. As a result of these complex ownership structures, it is near impossible to identify the

[25] This study also follows previous studies by considering the cumulated ownership among related family members as the total family ownership.
[26] Cash flow rights reflect the level of financial stakes of the controlling families in a family-controlled firm.
[27] Control rights are taken to be the proportion of outstanding shares through which voting power can be exercised directly or indirectly by the controlling families (Carney and Child 2012).

ultimate owners of the Malaysian family-controlled firms via immediate ownerships. Instead, it is only possible to identify the ultimate controlling families by tracing the chain of ownerships through which they own and control the publicly listed Malaysian family-controlled firms.

The systems of *various classes of shares with superior voting rights* are implemented in many countries around the world, but Malaysia practices only the one-share-one-vote system (Thillainathan 1999). Under such voting system, the ownership of one share entitles the owner of the share to one vote. The one-share-one-vote system is applicable to all Malaysian publicly listed companies, including publicly listed Malaysian family-controlled firms. Consequently the separation of cash flow rights and voting rights are normally noticeable in Malaysian family-controlled firms as a result of complex ownership structures by way of pyramiding or cross-holdings.

Cross-holdings refer to an ownership pattern where a company somewhere along the chain of control has some shares in another company in its chain of control (Thillainathan 1999; Claessens et al. 2000). Cross-holdings are a phenomenon involving horizontal and vertical ownership among related corporations; these linkages enable a controlling shareholder to further tighten the grip on the controlled company. Unlike business groups in Korea where it is common to have ownership and control in a controlled firm through cross-holdings (Bae et al. 2002), cases of cross-holdings of publicly listed companies in Malaysia are rare. In general, there is very little evidence of cross-holdings among Malaysian publicly listed firms (Carney and Child 2012; Claessens et al. 2000).

It is a common practice that a controlling family owns publicly listed Malaysian family-controlled firms via indirect equity stakes through multiple private and publicly listed

firms, which result in discrepancy between cash flow rights and control rights in the companies. Such ownership structure is known as *pyramiding*. More precisely, *pyramiding* refers to an ownership pattern which involves a controlling owner holding a majority equity stake in one corporation, which in turn holds a majority equity stake in another company; this process of chain ownership can be repeated a number of times (Thillainathan 1999; Claessens et al. 2000).

Based on the diagram in **Figure 2.1** , a controlling owner is said to indirectly own Firm A (*the family-controlled firm)* through pyramiding, by having certain indirect percentage of shares in Firm A; the owner directly controls Firm C, which in turn controls Firm B (or a sequence of firms leading to Firm B), which in turn controls Firm A. In addition, there is at least one publicly listed company among this sequence of firms which leads to Firm B or Firm A (La Porta et al. 1999). The pyramiding ownership structure is illustrated in **Figure 2.1**, as shown below[28].

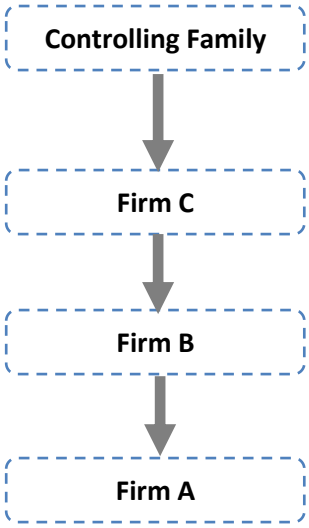

Figure 2. 1: Pyramiding Ownership Structure (La Porta et al. 1999; Claessens et al. 2000)

[28] The study by Claessens et al. (2000) revealed that 39.3% of their Malaysian sample firms are owned and controlled by the controlling owners via pyramiding.

In a simple illustration taken from previous studies (La Porta et al. 1999; Claessens et al. 2000; Carney and Child 2012), the derivation of *precise* quantum of the controlling families' indirect shareholdings in Firm A is possible. Previous studies revealed that the separation of controlling owners' control rights and cash flow rights in the companies have been found to negatively affect a firm's value (Claessens et al. 2000; Claessens et al. 2002; Lins 2003). These authors have considered this measure as a proxy for possible expropriation of minority shareholders by the controlling owner of the companies. However, there are studies that also stated that the relation of the separation of voting rights and cash flow rights with a firm's value does not necessarily constitute a linear association for the publicly listed companies of Malaysia and other East Asian countries (Lins 2003; Driffield et al. 2007).

Specific to the case of Malaysia, ownership by a controlling family in publicly listed Malaysian family-controlled firms is commonly achieved through multiple private firms. This results in the difficulties to derive the *precise* quantum of a controlling family's control rights in Malaysian family-controlled firms. These concerns have been continuously highlighted in previous studies (Lemmon and Lins 2003; Claessens et al. 2000; Carney and Child 2012). These studies have contended that it is impossible to recognise the identities of the ultimate shareholders in publicly listed companies; this is particularly true when the largest shareholders of the companies are revealed as private companies or in the form of a nominee accounts. The derivation of voting rights may not be appropriate for Malaysian publicly listed firms which are owned indirectly by controlling owners via a chain of privately held firms (Song et al. 2007; Lee et al. 2012).

On this issue, Claessens et al. (2000) have treated the private firm with the largest total equity stakes in a listed company as the controlling shareholder. The methodology of Claessens et al. (2000) does not affect the way a publicly listed Malaysia company is determined as a family-controlled firm. However, it does cause imprecise measure of cash flow rights and voting rights of a controlling owner in the company, especially when the ownership structure of the controlling family involves multiple private firms. Such difficulties are further demonstrated in **Figure 2.2**, as shown below.

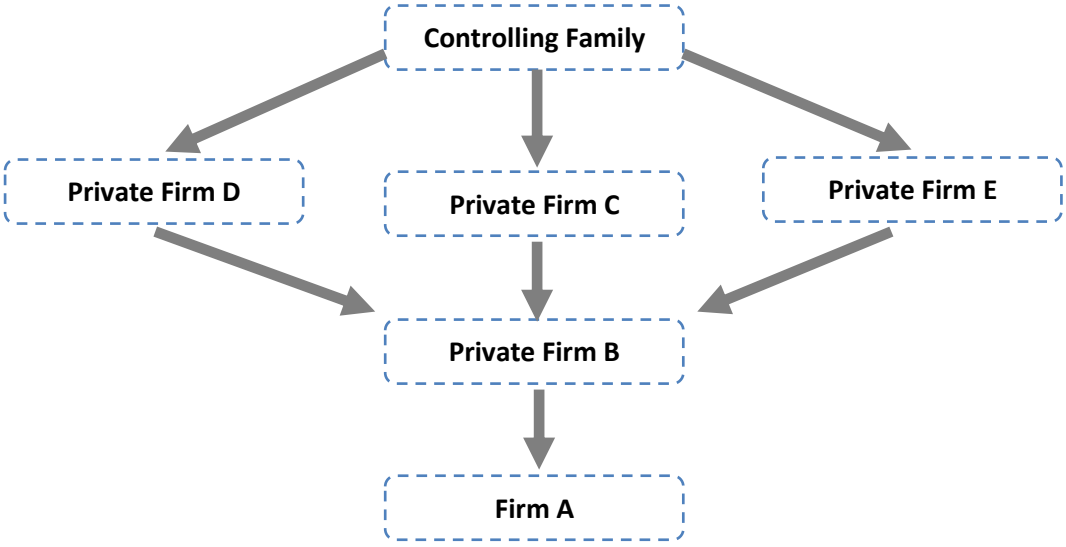

Figure 2. 2: Ownership Structure via Multiple Private Firms

For the case of Malaysia family-controlled firms as illustrated in **Figure 2.2**, the controlling family owns Firm A via multiple private firms, which they are deemed to have interest in[29]. In keeping with the principles of Claessens et al. (2000), the determination of voting rights based on the weakest link becomes infeasible. Concerns regarding measurement of control rights through the weakest links are also raised in subsequent studies for corporations of Western countries (Edwards and Weichenrieder 2009). This is due to the fact that the indirect shareholding of the controlling family in Firm A is frequently reported in the form of aggregated shareholdings in the annual report. The controlling family's separated percentage of ownerships of Firm D, Firm C and Firm E in Firm B are not reported in the company annual report. These concerns are more clearly illustrated by analysing an actual Malaysian family-controlled company as exhibited and illustrated in **Appendix A2 Figure A2.1**.

[29] The controlling family is deemed to have interest in the private firms with no less than 15% of ownership in the private firms, pursuant to Section 6A(4) of the Companies Act 1965.

For the purpose of illustrating the infeasibility of deriving precise measure of cash flow rights in deviation from voting rights of the Loh family in Oriental Holdings Berhad (OHB), the ownership structure is shown in **Appendix A2 Figure A2.1**. **Appendix A2 Figure A2.1** shows that OHB is owned by the Loh family via multiple private firms. The ownership data were obtained from the fiscal year end 2010 annual report, using all the reported ownership figures. The Loh family has interests in all the private firms[30] in the second and third tiers of the hierarchical structure, as disclosed in the annual report. These private firms hold a total of 54.58%[31] interests in OHB.

As shown in **Appendix A2 Figure A2.1**, the shareholdings of the Loh family in the private firms are not disclosed, as it is not disclosed in the annual report. First, this has induced one of the issues of infeasibility of deriving precise cash flow rights and voting rights of the Loh family in OHB. Second, separated ownership in each of these private firms by the Loh family is also not reported; the ownerships are in aggregated form, which again demonstrates the infeasibility of deriving the precise measures of the Loh family's cash flow rights and voting rights in OHB through multiple private firms.

Such scenario does not only apply to OHB, but remains as a common aspect among publicly listed Malaysian family-controlled firms that are owned by the controlling families via multiple private firms. Overall, the illustration demonstrates the impossibility of deriving *precise* cash flow rights and voting rights of the controlling family in a publicly listed Malaysian family-controlled firm when the ownership structure of the family-controlled firm involves multiple private firms. The main issue is this: in frequent cases, the precise figures of ownership stakes that exist at certain junctures along the chain of ownerships in the companies are not reported in the company annual report.

[30] As aforementioned, the disclosure of the Loh family indirect interest in OHB through the private firms is only mandatory when the Loh family equity stakes in these private firms are not less than 15%, in accordance with *Section 6A(4) of the Companies Act 1965*.

[31] = 1.56% + 9.92% + 43%, based on the reported figures in the annual report and as displayed in **Appendix A2 Figure A2.1**

In the case of Malaysia, only widely held firms are found to have measurable separation between cash flow rights and voting rights; however, this system is not frequent among family-controlled firms (Claessens et al. 2000). This study hence adopts the approach of Bae et al. (2002) and Cheung et al. (2009) by seeking another *direct* measure of possible expropriation of minority shareholders by the controlling Malaysian family business owners – the wealth effect of corporate acquisition activities of Malaysian family-controlled firms. As mentioned by Faccio and Stolin (2006) as well as Shleifer et al. (1997), the evidence of possible expropriations of minority shareholders have been clearly exhibited via corporate acquisition activities. Through the corporate acquisition announcements of Malaysian family-controlled firms, relevant data are available, which can be analysed to answer this question: do controlling Malaysian families undertake corporate acquisitions which are detrimental to the wealth of minority shareholders?

2.3.6 Board Features

Apart from looking at the corporate governance effect of family ownership, the board structure of family firms – one of the important internal corporate governance mechanism of family firms, has also been widely studied and discussed (Bammens et al. 2011). The monitoring role of boards has been the focus of extensive corporate governance research (Adams et al. 2010; Johnson et al. 1996; Dalton et al. 2007). With fiduciary obligations to the vast shareholders and the essential role to determine the strategic direction of the company and monitoring, the role of board of directors in the governance of the corporation is imperative (Gillan 2006; Licht 2013). Different from non-family firms, existing family firms studies empirically demonstrate that in comparison to the corporate governance function of the board, takeover market, institutional investors and even incentive compensations provide less governance

function in family firms (Gomez-Mejia et al. 2003; Kole 1997; Shivdasani 1993). Consequently, this further highlighted the importance of strengthening the corporate governance function of the board in family-controlled firms.

Corporate governance literature has continuously indicated that the composition and structure of the board of director is an important element in affecting the strategic direction and performance of the company, which ultimately affect the wealth of the shareholders (Arena and Braga-Alves 2013; Black et al. 2012; Li and Srinivasan 2011; Rosenstein and Wyatt 1997). Studies have demonstrated that preferences and practices of family firms, in terms of board composition and board structure, are significantly different from those of non-family firms (García-Ramos and García-Olalla 2011). These are especially the case when the presence of founders and heirs are considered. Family-controlled firms in developed countries have been found to be more likely to deviate from the best standard practices of corporate governance (Arcot and Bruno 2012; Anderson and Reeb 2004; Aguilera and Crespi-Cladera 2012; Schulze et al. 2001). Similar to family firms of other nations, the board structures of Malaysian family firms are also quite different from those of other Malaysian non-family firms, a few of which have been duly documented.

In Malaysia, the study carried out by Amran and Ahmad (2009) is one of the few which documented the differences between the board structure of publicly listed Malaysian family-controlled firms and the board structure of non-family-controlled firms. They investigated this governance mechanism of Malaysian publicly listed companies in terms of board independence, leadership structure and board size. Their findings revealed that Malaysian family-controlled firms favour the good practise of dual leadership structure where CEO and chairman of the board are vested in two separate individuals. Additionally, the board independence of Malaysian family-controlled firms is also found to be in lower degree.

Ibrahim and Samad (2011a) supported the findings of Amran and Ahmad (2009) that independent directors and duality are treated differently by Malaysian family-controlled firms. Their overall evidence revealed that Malaysian family-controlled firms do not need independent directors to monitor the board in order to reduce agency conflict with shareholders. These findings further show that Malaysian family-controlled firms are similar to family-controlled firms examined by Anderson and Reeb (2004) as well as Chen and Nowland (2010) in US and East Asia respectively; the controlling families often seek to minimise the presence of independent directors and are reluctant in the adoption of monitoring practices.

However, such preferences do not affect the interests of the shareholders. Chen and Nownlad (2010) have provided evidence that moderate levels of board monitoring for East Asian family-controlled firms[32] are sufficient to satisfy the minority shareholders. In actual fact, their studies revealed that at a higher level of monitoring, the marginal benefit of reducing the agency problem between controlling family and minority shareholders has been found to be outweighed by the cost of wealth destruction for all shareholders of the family-controlled firms.

Such low preferences of Malaysian family-controlled firms for outsider monitoring is also supported by study of Ibrahim and Samad (2011b), which is reflected through the lower usage of debt (in comparison with Malaysian non-family firms). A report by *Credit Suisse* also supports the lower preference of Malaysian family firms over debt usage with the net financial gearing of the family firms remain below the broader market (Fan, Tan, et al. 2011). As mentioned by Jensen (1986) and Grossman and Hart (1982), high debt may be used as a disciplinary device on managers, which results in

[32] Malaysian family-controlled firms are examined as well.

positive effect on the value of the firm.[33] The findings of Ibrahim and Samad (2011b) are similar to debt preference of family-controlled firms in other countries, as reported by González et al. (2012). The findings of González et al. (2012) revealed that Columbian family-controlled firms that are managed by the family tend to have lower debt levels. They have suggested that such finding demonstrates the risk-averse nature of family directors.

Apart from the low preferences for outsider monitoring by Malaysian family-controlled firms, study by Amran and Ahmad (2009) found no significant difference between family and non-family-controlled companies in terms of board size. These are also supported by later studies (Ibrahim and Samad 2011b, 2011a). Results of studies carried out by Ibrahim and Samad (2011b) showed that the board sizes for family and non-family Malaysian publicly listed firms are on an average of 8 persons.

In terms of family members on board, studies have documented the dominance of related family members of the controlling family on corporate boards of Malaysian family-controlled firms, with an average of 40% of the total number of board members (Ameer and Abdul Rahman 2009). In comparison with those found in US studies, Anderson and Reeb (2004) documented only an average of 20% family directors on board, which is considerably lower than those documented for Malaysian family firms.

Overall, previous studies have revealed that the corporate governance practices, in relation to the board structure of family-controlled firms, are different from other types of organisations, including Malaysian family-controlled firms. Few rationales have been proposed to justify such corporate governance preferences and practices of family firms (Arcot and Bruno 2012). First, family owners are in a better position to play

[33] The findings of San Martin-Reyna et al. (2012), on the other hand, revealed that debt level negatively affects the performance of family-controlled firms.

the monitoring and advisory roles of the board as compared with the application of standard corporate governance practices. They stated that lower governance standards in family firms are not necessarily associated with lower firm performance. This argument again supports the contention of Chen and Nowland (2010). The empowerment of the board of directors with monitoring roles is not very relevant in family firms, since the controlling family will naturally protect their firms from any malpractices.

The second reason may be due to entrenchment from the family shareholders, for having the incentives to expropriate minority shareholders or entrench themselves in managerial positions (Shleifer and Vishny 1997). Unlike non-family-firms, family-controlled firms endogenously opt for optimal governance structure which does not conform to standard governance practices that are recommended by the respective law and regulations (Arcot and Bruno 2012). As a result, the entrenched family shareholders may opt for corporate governance practices that facilitate extraction of private benefits. In terms of possible expropriation of minority shareholders (*expropriation hypothesis*), studies have documented its existence among Malaysian family-controlled firms (Liew et al. 2011). In a study by Liew et al. (2011), related party transactions have been found to be one of the tools employed by Malaysian family-controlled firms for expropriation of minority shareholders. They have documented that such activities reduce the value of Malaysian family-controlled firms.

The nature of the ownership structure of Malaysian family-controlled firms, in which ownership is gained through pyramidal and cross-holdings structure with concentrated shareholdings, further renders governance on family firms difficult (Azizan and Ameer 2012). The boards of Malaysian family-controlled firms are also dominated by members of the controlling families who are also the major shareholders of the companies (Ameer and Abdul Rahman 2009). Studies by Azizan and Ameer (2012) have also

revealed entrenchment of the controlling families in Malaysian family-controlled firms when the equity stakes of the controlling families in the companies are more than 40%.

2.4 Corporate Governance System in Malaysia

Family firms are a common feature of business in Malaysia (Claessens et al. 2000; Carney and Child 2012). The activities of expropriating the minority shareholders by owners with large ownership stake can be extensive, especially in emerging countries with low investor protection and weak corporate governance (La Porta et al. 2000; Johnson et al. 2000; Dyck and Zingales 2004). The common occurrence of concentrated ownership in a company can be attributable to weak investor protection (La Porta et al. 1998). This shows that controlling owners with concentrated ownership can potentially extract private benefits from the company. It has been a continuous effort from policymakers and regulators worldwide to be concerned with the designing of a corporate governance framework that can protect minority investors from the misbehaviours and self-interested controlling shareholders of the company (McCahery and Vermeulen 2013).

Among other emerging countries, it has been a continuous effort from the Malaysian government to maintain strong corporate governance systems with good investor protection system. The effort from Malaysian government has made the corporate governance setting of Malaysian in which Malaysian family firms operate differ from other Asian nations. Malaysia has proven to be a regional leader in corporate governance within Asia region, as reported in *Corporate Governance Report on Observance of Standards and Codes 2012* (World Bank 2012). In terms of investor protection regime, Malaysia continues to receive positive reports on its corporate governance practices; Malaysia retained its fourth position for investor protection for

the sixth consecutive year (World Bank 2009, 2011, 2012). However as highlighted by Mallin (2011) and OECD (The Star 2013a), poor enforcement remains an issue in Malaysia due to poor allocation of resources, lack of regulatory autonomy and transparency, enforcement powers, corruption within civil services and shortage of political will to affect a wholesome reform.

Different from other East Asian countries, the Malaysian market has been the only emerging market of East Asia in which the government has institutionalised the shareholder activism, through the establishment of *Minority Shareholders' Watchdog Group* (MSWG) (Azizan and Ameer 2012). Such effort may hinder the controlling families of Malaysian family-controlled firms in opting for minority shareholder expropriation activities. The MSWG assists with the creation of awareness among the minority shareholders to seek information, voice opinions and seek redress in the case of discovering any questionable minority shareholder expropriation misconducts. Studies have revealed the insignificant effect of MSWG, especially when the shareholdings of the controlling family in Malaysian family-controlled firms are highly concentrated (Azizan and Ameer 2012). However, studies revealed that the management of the Malaysian family-controlled firms are entrenched[34] and reluctant to change their value-decreasing operations even when concerns are raised by MSWG.

Overall, Malaysia is categorized as having strongly defined formal legal rights, creditor rights, and minority shareholders legal protection and disclosure requirements of listing corporations that exceed those of most advance countries (Claessens and Yurtoglu 2013), which still in need of further improvement (The Star 2013b).

[34] for controlling families with shareholdings of more than 33%.

2.5 Summary

Families represent a unique group of long-term owners (James 1999; Morikawa 2013), holding substantial equity stakes and vital managerial positions in family-controlled firms. In contrast to other organisations, family-controlled firms view business from a longer-term perspective due to the intention of passing interests and benefits to future generations (Miller and Le Breton-Miller 2006). Such attitude towards business is also reflected in their investment behaviour. Family-controlled firms are found to invest more prudently and efficiently than non-family-controlled firms (1999), exhibiting higher levels of personal sacrifice, social sensitivity, employee continuity, business continuity and objectives (Donnelly 1964)[35]. Despite their significant presence and unique characteristics, the influence of families on firm value has only recently attracted burgeoning attention in the academic literature, with no consensus reached (Anderson and Reeb 2003b; Driffield et al. 2007; Barontini and Caprio 2006; Miller and Le Breton-Miller 2006; Chang and Shin 2007; Sacristán-Navarro et al. 2011).

The review of literature on Malaysian family-controlled firms in this chapter shows that the presence of Malaysian family-controlled firms is significant in the Malaysian capital market. Statistics revealed the continuous significant economic contribution of Malaysian family-controlled firms to the national economy. Some valuable studies discovered that the equity stakes of Malaysian families in Malaysian family-controlled firms are highly concentrated. Furthermore, even when Malaysian family-controlled firms are publicly listed, the controlling families maintain their majority ownership stakes and pivotal managerial positions in the family-controlled firms.

[35] Anderson and Reeb (2003), Mazzi (2011) and Chisman et al. (2004) provide detailed description on features of family-controlled firms.

Another important issue concerning family firms is discussed in this chapter: the difficulty of deriving precise measurement of control rights and cash flow rights of the controlling families. Because of this problem, it is infeasible to conduct studies by using the separation of control rights and cash flow rights as a proxy measure for the possibility of minority shareholder expropriation. Past studies have found negative correlation of the separation of control rights and cash flow rights with firm value. Hence another approach is sought, which allows direct measurement of possible minority shareholder expropriation by the controlling families. Following previous studies (Bae et al. 2002; Cheung et al. 2009), the wealth effect of corporate acquisition activities undertaken by Malaysian family-controlled firms are evaluated in order to assess the possibility of minority shareholder expropriation.

The board structure of family firms play vital role as an internal corporate governance mechanisms. Existing family firms studies empirically demonstrate that in comparison to the corporate governance function of the board, takeover market, institutional investors and even incentive compensations provide less governance function in family firms (Gomez-Mejia et al. 2003; Kole 1997; Shivdasani 1993). Malaysian family-controlled firms, like family-controlled firms in other countries, have a board structure which is quite different from other non-family firms.

In the context of Malaysian family-controlled firms, the controlling Malaysian families were found to prefer lower levels of governance and monitoring; this regulatory aversion reflects the tendency of the controlling families to indulge in minority shareholder expropriation activities for private benefits. The boards, on average, comprise higher percentage of family members with lower percentage of independent directors; such imbalanced board compositions exacerbate the entrenchment of the controlling families in committing minority shareholder expropriation activities. Debt structure can be important disciplining factors in limiting free cash flow and thereby

reduction in private benefits extraction. However, Malaysian family-controlled firms were found to prefer lower debt levels, thereby avoiding monitoring from outsiders.

In general, the structure of Malaysian family-controlled firms, with concentrated shareholdings and lower preference for governance in terms of board structure, may frequently undertake activities that do not add value to the wealth of minority shareholders. A few examples of minority shareholder expropriation activities conducted by Malaysian family-controlled firms have been discussed in Chapter 1; these cases further support the possibility of such exploitative notions. However, better investor protection may prevent minority shareholders from expropriation and consequently reduce private benefit extractions by the controlling families (Holmen and Knopf 2004).

In terms of investor protection regime, Malaysia has continued to receive positive reports on its corporate governance practices; Malaysia retained its fourth position for investor protection for the sixth consecutive year (World Bank 2009, 2011). The formation of MSWG is one of the governmental efforts to protect the interests of minority shareholders. Malaysia also has proven to be a regional leader in corporate governance within Asia region, as reported in *Corporate Governance Report on Observance of Standards and Codes 2012* (World Bank 2012). In summary, is current corporate governance framework and government effort are sufficient to hinder minority expropriation by Malaysian family-controlled firms? As mentioned, the activities of expropriating the minority shareholders by owners with large ownership stake can be extensive, especially in emerging countries with low investor protection and weak corporate governance (La Porta et al. 2000; Johnson et al. 2000; Dyck and Zingales 2004). Unfortunately, there is no empirical evidence which shed further light or provides implications to Malaysia policymakers if further commitment of resources and effort is needed to improve the investor protection system in Malaysia.

CHAPTER 3 LITERATURE REVIEW

3.1 Introduction

This chapter reviews past studies relevant to three streams of literature. The first stream pertains to the wealth effect (or valuation effect) of corporate acquisition announcements for the acquiring firms (the acquirers). The second stream discusses existing studies on the relation between ownership and firm value. The third stream comprises discussion on the agency problem. All these reviews focus specifically on family firm studies.

The organisation of this chapter is as follows. Section 3.2 begins with discussions on the underlying theoretical framework and notions that predict the effects of family ownership on the value creation of corporate acquisition announcements, which are the neoclassical principal-agent agency problem (*interest alignment hypothesis*) and principal-principal agency problem (*expropriation hypothesis*). Focus is given to relating these agency theories to family-controlled firms, the operations of which are under the influence of features specific to family-controlled firms. Section 3.3 discusses prior literature covering the role of family firms as company acquirers and the wealth effect of these corporate acquisition announcements.

Section 3.4 focuses on discussing existing prominent studies that have provided empirical evidence on the determinants of the wealth effect of corporate acquisition

announcements (*the announcement-period stock returns of the acquiring firms when releasing corporate acquisition announcements*). Relevant findings from the strand of literature in family firm studies, *if any*, are also discussed as family firms carry distinctively different features and characteristics vis-à-vis those of nonfamily firms. Overall, the reviews in Section 3.4 provide further insight and predictions on the possible relationship between the determinants discussed and the returns of the announcements specifically for family-controlled firms. Section 3.5 concludes the chapter based on these discussions.

3.2 Agency Theory Framework: Family Ownership

Empirical researches on corporate governance are based on the theoretical framework of *agency theory* (Fama 1980; Fama and Jensen 1983a; Jensen and Meckling 1976).[36] Better corporate governance induces favorable outcomes to company stakeholders, better firm performance, better access to financing and lower cost of capital for firms in emerging markets (Claessens and Yurtoglu 2013). The importance of corporate governance especially in emerging markets of Asia is undeniable whilst continuously receives attention from policy makers, market practitioners, institutions and pertinent decision makers (La Porta et al. 2000; OECD 2011, 2012a). Dependent on types of ownership structures, the nature of corporate governance varies (Claessens and Yurtoglu 2012).

In Asia, one of the dominant types of ownership structures are family ownership (Carney and Child 2012; Claessens et al. 2000). Unlike others, firms under family ownership exhibit unique characteristics in terms of ownership structure, corporate governance settings, family goals, family culture and trans-generational feature as well as the influence on the way business strategic decisions are made (Anderson and Reeb 2003b; Chua et al. 2009; Sharma et al. 2012; Lin 2012; Chrisman et al. 2012; Aguilera and Crespi-Cladera 2012; Sirmon and Hitt 2003). The worldwide prevalence of family-controlled firms as dominant players in the global capital markets is undeniable; these family firms exert substantial influence over the economic landscapes of most nations (Astrachan and Shanker 2003; Alderson 2011; Poza 2009).

[36] As discussed in the forthcoming Section 3.2.1.

In family firm studies, *agency theory* has been the dominant theoretical principle examined (Pieper 2010; Nordqvist et al. 2014). The resultant main concern is whether family ownership creates or destroys value (Villalonga and Amit 2006). One side of the proposition posit that family ownership induce value enhancement for firm value due to the notion of the neoclassical *interest alignment hypothesis*. The notion of an *interest alignment hypothesis* typically assumes that greater owner-manager shareholdings leads to better corporate governance and consequentially better firm value (Jensen and Meckling 1976). Hence typically in a family-controlled firm, *interest alignment hypothesis* is intrinsically mitigated, which in turns create shareholder wealth under the presence of large family blockholders. This is due to the inherent natural alignment of owner(s) and manager(s) interests in a family firm which consequentially decrease the need for formal supervision of agent (the manager) and elaborate corporate governance mechanisms (Poza 2009; Ang et al. 2000). Existing findings on family firms repeatedly reveal family firms to be more profitable and (Nordqvist et al. 2014)have a higher valuation than non-family firms (Isakov and Weisskopf 2014; Anderson and Reeb 2003b). These findings provide further support to the notion of *interest alignment hypothesis* that family ownership might be a way to reduce agency costs between the managers and the shareholders, which then contribute to value creation of family firms.

Conversely, existing empirical findings also provide evidence that at high level of owner-manager shareholdings managers become entrenched, resulting in a decrease of firm value (Morck et al. 1988; Hermalin and Weisbach 1991), which fosters the misallocation of company resources and attempt to block takeovers (Jensen and Ruback 1983). Taken a further step, within the agency framework in family firm studies, family-controlled firm intrinsically leads to this second type of agency conflicts known as the *Expropriation Hypothesis* (principal-principal conflict of interests) or *Agency Problem II* (Villalonga and Amit 2006; André et al. 2012; Croci and Petmezas 2010) that differ in nature from those in non-family firms (Chrisman et al. 2004). In essence, as family ownership increases, conflicts may arise between family owner(s) and minority shareholders due to *family entrenchment*. Henceforth, section 3.2.1 and section 3.2.2

provide further discussions on both *Interest Alignment Hypothesis* and *Expropriation Hypothesis* in family-controlled firms.

3.2.1 Interest Alignment Hypothesis

Smith and Rogers (1869) presented a practical discussion of an inherent problem among joint stock companies – the impact of owners appointing others as stewards of their wealth. He suggested that managers of other people's wealth cannot be expected to watch over it with the same anxious vigilance one would expect from the owners. Hence, negligence and profusion would often prevail in the management of such companies. This is a phenomenon that is also known as the neoclassical *agency-principal problem* or *Agency Problem I* (Jensen and Meckling 1976). Preceding the study by Jensen and Meckling (1976), Alchian and Demsetz (1972) had also analysed the similar problem of managerial shirking.

The key insight offered by Jensen and Meckling (1976) was to model the relation between the managers and the owners (shareholders) akin to those between principals and agents. The owners appoint the managers to perform the management tasks of a company, giving managers control over company resources. As both parties' main purpose is to maximise their own utility and self-interest, conflict of interest naturally arises between both parties. The contracted managers are conjectured to have the incentive and the ability to consume perquisites at the expense of the company resources in consequence of the control over company resources granted by the owners.

As a result of the conflict of interest between the principals (owners) and the agents (managers), agency costs are incurred (Jensen and Meckling, 1976). These agency costs consist of (i) monitoring costs by the principal (owners); (ii) bonding costs by the agent (managers); and (iii) the residual loss. Monitoring costs are incurred by the principals (owners) throughout the process and activities that limit the agents (managers) from taking any harmful actions. The bonding costs are spent by the agents (managers) to ensure the principals (owners) do not take certain actions against the agents. Despite the optimal monitoring and bonding costs incurred by the principals and agents, losses still arise as a result of the agents' (managers) decisions that diverge from the principals' (owners) interests. These losses are referred to as the residual loss.

Analysis on the occurrence of agency costs in a company begins with the assumption that company equity is owned 100% by the manager. When the manager owns 100% of the equity, optimal pecuniary and non-pecuniary benefits are reached as the owner-manager bears all the costs of the actions. Non-pecuniary benefits can include having larger office space, using branded office furniture, shirking from work or overstaffing of personal assistants. Agency costs then naturally arise for the case when the owner-manager owns less than 100% of equity in the company. Accordingly, agency costs occur in consequence of their own-utility-maximisation behaviour by the self-interested owner-managers, while bearing only a fraction of the costs at the expense of the company resources.

In simpler terms, owners (shareholders) of a company have claims over the company's net wealth. However, very often, not all owners run the company, but hire managers to manage the company on behalf of the owners. When the interests of hired managers are not aligned with those of the owners, it is possible that no productive work has been done by the managers despite enjoying private benefits and perquisite consumption, which may be detrimental to the value of the company.

Family-controlled firms in this case offer advantageous family-specific-features that naturally align the interests of principal-agent. Unlike widely-held corporations and non-family firms, family-controlled firms offer a distinctive type of insider ownership that naturally aligns the interests of managers and shareholders. Inherently, the positions of top management of family-controlled firms are often held by the controlling owners themselves or related family members (Claessens et al. 2000; Lins 2003; Carney and Child 2012); these managerial posts can be passed on through generations (Chrisman et al. 2012; Schulze et al. 2003), along with intrinsically high concentration of family ownership (Faccio and Lang 2002; Claessens and Yurtoglu 2013; Claessens and Fan 2002). These traits in family-controlled firms allow strong control by the controlling families, with the intention of retaining ownership and control throughout generations.

Additionally, family owners carry further incentives, attributes and human attributes different from other types of dominant owners, which directly benefit family-controlled firms and their stakeholders. First, for the purpose of passing down wealth throughout generations, family-controlled firms tend to view business and investment from a long-term perspective (Bertrand and Schoar 2006). Consequently, family-controlled firms execute better investment decisions and thus avoid managerial myopia in the decision-making process (Stein 1989). Second, unlike other types of controlling owners or large shareholders, family owners often possess thorough understanding of the business and its underlying processes, which reduces the information asymmetries between the owners and managers of the firm (Miller and Miller 2005). Third, since a controlling family typically holds a concentrated stake in a single firm, the financial well-being of the family often depends on the performance and financial strength of the firm. As such, a controlling family is more motivated than other types of owners in monitoring the operation of business (Anderson and Reeb 2004). Fourth, family reputation is also strongly linked to the success of a family firm (Déniz and Suárez 2005; Dyer 1994). The strong relation between family reputation and a family firm's success tends to increase the level of family owner's commitment as an effective monitor.

Family-controlled firms also are found to invest more efficiently than non-family firms (James 1999), which further enhance value of the family business. Additionally, family-controlled firms favour strong relationship with their stakeholders, patient capital and parsimony in scarce environment, which instigate continuous prosperity of family business (Tokarczyk et al. 2007). The inherent family commitment and close relationship to family businesses also generate sustainable competitive advantage and encourage managers to behave in the best interest of the organisations (Eddleston and Kellermanns 2007). As the well-being and reputation of the controlling families are directly tied to the welfare of the family-controlled firms, family owners have further incentives in mitigating Agency Problem I and improving firm performance to create long-lasting economic consequences (Anderson and Reeb 2003b).

Lastly, when it comes to monitoring, the controlling family naturally assumes the supervisory role in a family firm similar to the function of large shareholders in overseeing the performance of publicly listed firms. Compared to shareholders with diminutive shareholdings, large shareholders have stronger incentives in monitoring managers due to their large stake of investments in the firms and relevant claims over larger portions of company net resources, thereby reducing agency problems and improving firm values (Demsetz and Lehn 1985; Shleifer and Vishny 1986; Chang 2004). The substantial shareholdings of family owners also enable the controlling family owners to garner enough voting power. Consequently, family owners are able to address the agency-principal agency problems since they have sufficient control over the assets of the company to have their vested interests protected (Shleifer and Vishny 1997).

The aforementioned discussions overall reveal that families as large blockholders have substantial economic incentives in maximising firm values; they possess strong influence and substantial power for enforcement in order to achieve their purposes.

Such notion of family positive impact on firm value is supported by existing empirical findings. Existing empirical findings showed the benefits of family owners leading to better firm performances when compared to non-family firms (Andres 2008; Villalonga and Amit 2006). The interests of owner-manager are inherently aligned in family firms, which induce better firm performance (Ang et al. 2000; Anderson and Reeb 2003b; Ben-Amar and André 2006; Chrisman et al. 2004). The greater the family ownership, the more aligned the interests of managers are with those of the owners as described by the *principal-agent agency theory* of Jensen and Meckling (1976).

3.2.2 Expropriation Hypothesis

Empirical literature has also documented the detrimental effects of high levels of insider ownerships. In 1988, Morck et al. (1988) recorded that for large US firms in 1980, the interests of managers and shareholders were satisfactorily aligned when managers held 5% or less of the company shares. The resulting effect is improved firm performance. However, when managerial shareholding is between 5% and 25%, the insider ownership becomes detrimental to firm performance, as measured by Tobin's Q. Such situation is also traditionally known as the *managerial entrenchment* (Morck et al. 1988) which fosters the misallocation of company resources and attempt to block takeovers by the managers (Jensen and Ruback 1983). Within the context of family ownership, the inherent natural alignment of family owner-manager in a family firm may yield *family entrenchment*.

Consistent with the findings of Morck et al.(1988), subsequent studies have documented the nonlinear relation between family ownership and family firm performance, for family firms of the S&P500 in US (Anderson and Reeb 2003b; McConnell and Servaes 1990), Poland (Kowalewski et al. 2010), Canada (Ben-Amar and

André 2006) and Europe (Maury 2006). As the level of family ownership increases, the adoption of non-economic objective of the controlling family becomes more likely (Chrisman et al. 2012).

Specifically, family ownership leads to conflicts of interest with other non-family shareholders (the *minority shareholders*), which can result in deviation from the objective of profit maximisation. This is a consequence of the inherent nature of concentrated shareholdings in a family-controlled firm, leading to possible destructions of the minority shareholders' wealth (Aguilera and Crespi-Cladera 2012; Morck and Yeung 2003; La Porta et al. 1999; Claessens and Yurtoglu 2013; Claessens et al. 2000). Family owners normally have sufficient control and power to ensure that the family-controlled firms pursue activities and corporate strategies that favour family's interest, which do not necessarily favour the interests of the minority shareholders (Allen and Sharon 1982). The controlling families can continue to pursue maximization of firm performance, while creating conflicts over wealth distribution among the shareholders (Ditmar et al. 2003).[37] Such entrenchment from the controlling family owners is also known as the *expropriation hypothesis*, *Agency Problem II*, *principal-principal agency problem* or *principal-minority principal agency problem* (Villalonga and Amit 2006; André et al. 2012; Croci and Petmezas 2010). Existing literature reveals few interpretations on such conflicting behaviour of family owners in relation to concentrated family ownership, which are family-firm-specific peculiarity.

First, Morck, Shleifer and Vishny (1988) explain that increased insider ownership has the consequence of two opposing effects on managerial incentives. In addition to the benefit of having a claim over company net resources, the managers are given more voting power. When the voting power becomes greater, the managers become harder to be displaced and hence become more entrenched. As discussed earlier, the controlling families who own a large block of shares in family-controlled firms also

[37] Ditmar et al. (2003) found that insider with large shareholdings retain excessive cash within the firm, which allows the possibility of resources exploitation by the insiders to their private benefit.

commonly dominate the top management positions. Consequentially, the concentrated family ownership allows self-interested family owners-managers to go unchallenged, either by the board internally or takeover bids from the market externally. The inherent position of the controlling family as the controlling owner and manager allows the family to gain an effective reign in the family-controlled firm; the family has the power to determine how the company is run. The controlling families who own a large proportion of shareholdings may exercise their majority voting right to block a hostile takeover even if the takeover has positive effects on firm value (Stulz 1988). It is extremely difficult to mitigate the negative effects of agency conflicts between family owners and minority shareholders due to concentrated family ownership; the predicament cannot be resolved even through the traditional functions of the board of directors (Fan and Wong 2005).

Second, the possibility of entrenchment from the controlling family is even greater when the family's voting rights[38] exceed the cash flow[39] claims over the company (Carney and Child 2012; Claessens et al. 2000; Faccio and Lang 2002) which result in comparably higher value deterioration in family-controlled firms (Bennedsen and Nielsen 2010). Specifically, the deviation of family's voting rights from cash flow rights are normally achieved via few control-enhancing mechanisms, which include pyramiding, cross-holding and shares with superior voting rights. Consequentially, the separation allows controlling family owners to bear only a small fraction of the costs resulting from their value-deteriorating actions; at the same time, high voting right empowers controlling family owners to opt for manoeuvres which may expropriate the wealth of minority shareholders (Bebchuk et al. 1999).

Third, trans-generational control of ownership and management, one of the key features of family-controlled firms, may be detrimental to the long-term prosperity of

[38] Voting rights are taken to be the proportion of outstanding shares through which voting power can be exercised directly or indirectly by the controlling families.
[39] Cash flow rights reflect the level of financial stakes of the controlling families in a family-controlled firm.

family-controlled firms (Chrisman et al. 2012; Schulze et al. 2003). Particularly, such altruistic behaviour of family owners or the *Fredo effect* (Kidwell et al. 2013) may be detrimental to the company when incompetent family members are chosen to take over the management position (Chua et al. 2009; Anderson and Reeb 2004; Bertrand and Schoar 2006). Findings assert that when corporate control transfers from highly able entrepreneurs to the next generation, these heirs are likely to be less competent than the successors (Morck and Yeung 2003). Similar arguments have been offered. When the strategic goal of the controlling families is to continue maintain the company under family control instead of transferring control to professional outsider managers, successions in the management of family-controlled firms are less effective (Burkart et al. 2003; Chua et al. 2009; Cucculelli and Micucci 2008; Smith and Amoako-Adu 1999).

Fourth, the controlling families with large and undiversified ownership are risk averse (Anderson et al. 2012). The controlling families prefer to pursue risk reduction strategies that are in the interest of the controlling families, but not necessarily in the interest of other shareholders. Anderson et al. (2012) showed that controlling families restrict research and development spending and shorter-horizon investments. This is due to the undiversified nature of controlling families' ownership.

Fifth, apart from the possible value-destroying behaviour from controlling families due to large family ownership and family altruistic manners, family ownership also leads to conflict of interest with other minority shareholders due to the existence of *private benefits of control* (also known as *control-oriented benefits*) (Aguilera and Crespi-Cladera 2012). Minority shareholder expropriation by controlling shareholders for private benefits can be extensive, especially in emerging countries with low investor protections and weak corporate governance (La Porta et al. 2000; Johnson et al. 2000; Dyck and Zingales 2004). This has been one of the corporate governance issues which continues to attract extensive attention particularly for emerging market (Claessens and Yurtoglu 2013). Furthermore, the comprehensive understanding of the business

has stationed the controlling family in a stronger position to pursue their private goals due to the accumulation of knowledge passed down from the founders of the family-controlled firms (Block 2012).

Numerous studies have examined the extent to which controlling owners extract private benefits at the expense of minority shareholders around the world (La Porta et al. 2000; Dyck and Zingales 2004; Barclay and Holderness 1989). Findings have essentially concluded that concentrated ownership is associated with higher private benefits of control, particularly in less developed capital markets (Dyck and Zingales 2004). The private benefits of control for controlling family owners can be in two forms, pecuniary or non-pecuniary. Specifically, the non-pecuniary form of private benefits of control can be in a form of an intuitive value that some shareholders treat simply to being in control (Harris and Raviv 1988); or amenities associated with social reputation or egos that are fostered with the ability to waste money or influential political power of a family (Ehrhardt and Nowak 2003). The non-pecuniary form of private benefits can also be attained via perquisites, in terms of gratification through excessive management compensation or association with luxury goods that can be enjoyed by the top management at the expense of company resources (Jensen and Meckling 1976).

For private benefits of control in pecuniary form, Dyck and Zingales (2004) and Johnson et al. (2000) offered few paradigms, which the controlling family owners can potentially extract using company's resources at the expense of minority shareholders. In the case of weak law enforcement, corporate resources can be expropriated by the controlling owners through outright theft, misappropriation of investment resources, asset stripping and transfer pricing. The controlling owners who acquire valuable information due to their privileged role in the company may abuse the information for their own benefits. Such opportunities can be exploited through another company they own or are associated with via related-party transactions that enhance family owners'

wealth; however, the value of these transactions is nil or are detrimental to minority shareholder wealth. Numerous cases from the industries have already demonstrated involvement of family-controlled firms in such minority shareholder expropriation behaviour (Bae et al. 2002; Johnson et al. 2000). [40]

Sixth, family-controlled firms are prompt to greater transactions occurrence with other companies that are also owned by the same controlling family (Faccio et al. 2001), which permit the wealth of minority shareholders expropriation. The controlling mechanisms employed by the controlling family owners (through pyramiding or cross-holdings), resulting in affiliated companies which form business groups prompt the controlling families to carry out value-destroying inter-firm transactions. The controlling owners have greater incentive to perform inter-firm transfer of resources within the same business groups that may be detrimental to the wealth of minority shareholders as a consequence of the pyramidal structure of ownership (Djankov et al. 2008; Riyanto and Toolsema 2008). One of such inter-firm transactions identified among the family business groups is *tunnelling* (Cheung et al. 2006; Cheung et al. 2009; Bae et al. 2002; Friedman et al. 2003; Kali and Sarkar 2011) which refers to related-party transactions involving transfer of resources from the lower-level firm to the higher-level firm of the pyramidal chain in the same business group. [41] Such activities can take the form of outright theft or fraud or dilutive share issues that discriminate against minority shareholders. The pyramidal structure of the business groups consequentially induces opportunities enabling the controlling family to siphon resources out from firms at the lower end of the pyramidal chain to those at the higher end of the pyramidal chain (in which the controlling family holds a higher claim on cash flow).

[40] Cases of related-party transactions of Malaysian family-controlled firms have been discussed in Chapter 1.

[41] Another form of frequently examined related-party transactions are *propping,* which were found to be value-enhancing (Cheung et al. 2006; Cheung et al. 2009; Bae et al. 2008). In contrast to *tunnelling*, the controlling families sacrifice their wealth to prop up poorly performing firms, which benefits minority shareholders of these firms. This is to preserve the controlling families' options to expropriate profits of these firms in the future. Direct acknowledgement of such activities may be difficult; hence, Bae et al. (2008) employed indirect measure of proxy for such activities.

3.3 Family Firms and Short-Term Wealth Effect of Corporate Acquisitions

Family-controlled firms exhibit different features than non-family firms (Siebels and Dodo 2012). These features also extend to investment behaviour and preferences of family firms. Studies have revealed that the investment strategies and behaviours of family-controlled firms differ from those non-family firms (Chen and Hsu 2009; Anderson et al. 2012; Block 2012). Some studies have reported specifically on the corporate acquisition behaviour of family-controlled firms, which are different from those of non-family-controlled firms (Miller et al. 2010).[42] These studies found that family-controlled firms perform fewer acquisitions in comparison with non-family firms without negatively affecting the growth of the companies (Franks et al. 2012; Caprio et al. 2011; Bauguess and Stegemoller 2008), are more risk-averse (Faccio et al. 2011; Anderson et al. 2012) and follow conservative policies (Zhou et al. 2011).

Recent studies have found that *family* is an important determinant of value creation in corporate acquisition activities. The value creation of corporate acquisition activities through the stock returns of the acquiring companies during corporate acquisition announcements periods were consecutively examined, but no consistent inferences were reported.[43] This field of research hitherto remains limited.

Numerous studies have been conducted to examine the wealth effect (*the change in market value of the acquiring firms during the announcement period*) of corporate acquisition announcements for both acquirers and targets (Campa and Hernando

[42] Family owners are found to desire lower business risk; hence, inverse relation of family ownership with the number of acquisitions and dollar volume of acquisitions have been reported.

[43] Overall reviews based on past corporate acquisition studies for the case of family-controlled firms are provided in the forthcoming section 3.3.2.

2004; Martynova and Renneboog 2008; Tuch and O'Sullivan 2007; Alexandridis et al. 2010). The overall empirical evidence suggested that target firms (the acquired firms) on average experienced significant positive wealth effect of corporate acquisition activities, whereas the acquiring firms (acquirers) experienced insignificant wealth effect. Consequently, this result in the premise that corporate acquisition activities do not create wealth for the acquiring firms (acquirers). However, past studies find family firms experience significant corporate acquisition announcement-period wealth effect, when the influence of family owner is considered.

Reviews in this section and the forthcoming section 3.3.1 overall reveal the non-consensus inferences on the relations of family ownership with the wealth effect of corporate acquisition activities specifically for the case of family-controlled firms from different capital markets. The non-consensus inferences could be due to the examined samples (*the family-controlled firms*) that are from different capital markets of different countries under the influence of a different set of legal systems, investor protection systems, corporate governance systems, economic development and social norms. The non-consensus inferences further emphasize the importance of studies to be conducted specifically for each individual capital market. As highlighted by Fan et al. (2011) and Jameson et al. (2012), focused-country studies are more advantageous than cross-country studies. Researchers can control data quality and analyse the impacts of key institutional factor on various issues in depth, while holding constant other factors that might be difficult to disentangle in cross-country studies. Similar reasoning that encourage focused-country studies is also emphasized by Miller et al. (2007) and Cucculelli and Micucci (2008). They lay emphasis on the fact that the applicability of past empirical findings in family firm studies may not apply to all countries, due to dissimilar institutional and economic settings. The applicability of past inferences on the wealth effect of corporate acquisition announcements also may not be applicable to emerging markets (Bhaumik and Selarka 2012; Netter et al. 2011), which generally oversample large publicly traded companies (for both acquirers and the targets) from the developed economies with stronger investor protection system and legal system in comparison to those of the developing countries.

Within the context of family firms, there can be two possible outcomes from the wealth effect of corporate acquisitions. On one hand, the *interest alignment hypothesis* predicts that the inherent alignment of interest of the family owners who are also the managers with other shareholders induces better value-enhancing corporate acquisitions (Bhaumik and Selarka 2012).

On the other hand, the concentrated family ownership may induce entrenchment from the controlling family. The controlling family may opt for value-decreasing corporate acquisitions that are detrimental to the minority shareholders, which in turn earn the controlling family private benefits (Bhaumik and Selarka 2012).[44] Such behaviour is relevant to the notion of the *expropriation hypothesis*. Minority shareholder expropriations by controlling shareholders for private benefits can be extensive, especially in emerging countries with weak corporate governance and a lack of legal institutions (La Porta et al. 2000; Johnson et al. 2000; Dyck and Zingales 2004). Corporate ownership structure (La Porta et al. 1999) and legal origins (La Porta et al. 2000) also play vital role in determining the extent of minority shareholder expropriations by the controlling owners. The concern of minority shareholder expropriation continues to be one of the corporate governance issues that attracts extensive attention (Claessens and Yurtoglu 2013).

Two streams of literatures have attempted to examine the effect of minority shareholder expropriation activities on firm value under the influence of concentrated family ownership. The first stream examines the *indirect measure* of minority

[44] Existing studies have offered few rationales for such value-destroying behaviour of family owners. In the case when the owners-managers are entrenched, the owners-managers would intend to make themselves as valuable to shareholder and costly to replace by venturing into investments that are only valuable under the incumbent managers (Shleifer and Vishny 1989), for empire building (Lang et al. 1991; Morck et al. 1988) or for wealth transfer among family-controlled firms within the same business group (Bae et al. 2002; Johnson et al. 2000).

shareholder expropriation activities through different proxies for the extent of possible minority expropriation, which are found to affect firm value. Some studies employ legal system, particularly investor protection system as a proxy for likelihood of expropriation (La Porta et al. 1999; La Porta et al. 2000). Others employ the deviation of cash flow rights from control rights of the controlling shareholder in the controlled companies (Claessens et al. 2000; Lemmon and Lins 2003; Faccio and Lang 2002; Claessens and Unit 1999).

One stream of studies seeks *direct measures* through examination on specific activities that may suggest minority shareholder expropriations by controlling shareholders, which negatively affect the value of the company they control. Specific means of minority shareholder expropriation include corporate acquisition activities (Bhaumik and Selarka 2012; Bae et al. 2002; Basu et al. 2009; Holmen and Knopf 2004; André et al. 2012; Ben-Amar and André 2006; Holmen and Nivorozhkin 2007). In the case when the controlling family owners are self-interested, they can make suboptimal investment decisions. One of these suboptimal investment decisions is corporate acquisitions. Through corporate acquisitions, family owners are able to perform over-expansion of the company, which increase the socio-political influence of the controlling family at the expense of the minority shareholders (Johnson et al. 2000).

The overall results have been contradicting; some found corporate acquisition activities carried out by family-controlled firms as benefiting to the shareholder wealth of family firms. On the other hand, family firms perform value-destroying corporate acquisitions as a mean to attain private benefits at the expense of the minority shareholders.

In the case of Korea, Bae et al. (2002) specifically examined investors' reaction to merger events between affiliated firms belonging to the same Korean business group

(*chaebol*), with the intention to find out whether such mergers were used for expropriation of minority shareholders. *Chaebols* are family dominated conglomerates of businesses with an irregular father-to-son succession scheme, which is typical of the *chaebol* in Korea. Cross-shareholdings rather than pyramidal structures are a more significant ownership structure of a *chaebol*, which further increase the possibility of minority shareholder expropriation. As stated by the authors, corporate governance system in Korea is not well established. Furthermore, ownership of a *chaebol* firm is heavily concentrated in the hands of an owner-manager, who has almost complete control over all other member firms of a *chaebol*.

With 107 mergers examined between 1981 and 1997 for companies listed on Korea Stock Exchange, Bae et al. (2002) found that the *chaebol* bidders recorded significant negative announcement returns, even for those with good past performance prior to the mergers. Results also revealed negative relation between the concentrated shareholdings of owner-manager with the announcement returns for the *chaebol* acquirers. Their overall findings suggested the existence of minority shareholder expropriations by controlling families of the *chaebols* through intergroup merger activities.

Holmen and Knopf (2004) identified 121 Sweden mergers that occurred during the 1992–1995 period for companies listed on Stockholm Stock Exchange. Unlike other countries, Sweden civil law legal system is at the world average, ranking below common law countries; it has strong extra-legal protection (organised labour, the press, social norms, etc.) but weak corporate governance system. Sweden practices dual-class shares system, with a one-share-one-vote A share and a 1/10-vote per B share. A typical Sweden company has high degree of separation of ownership from control through pyramids, dual-class share and cross-holdings, which increase the potential for minority shareholder expropriations. Holmen and Knopf focused on the

wealth effect of related-party mergers, where the owners of the acquiring companies and target firms are the same.

The findings of Holmen and Knopf (2004) supported the beneficial effect family ownership; the stock returns (as measured by cumulative abnormal returns around the event announcement period) of acquiring firms were positively and significantly related to family owners.[45] Further evidence revealed that Swedish merger activities are not performed for the purpose of minority shareholders expropriation as those found for Korean family-controlled business groups (Bae et al. 2002).[46] Holmen and Knopf (2004) specifically examined only publicly listed acquirers and public listed targets. Hence, the results may be a manifestation of specific samples employed (Netter et al. 2011) and hence the inferences may not be applicable in general.

Ben-Amar and Andre (2006) investigated the effect of family ownership on stock performance (as measured by cumulative abnormal returns) of the acquiring companies during corporate acquisition announcements period for Canadian publicly listed firms. Canadian stock market practices dual-class voting shares and pyramid structures that result in the separation of cash flow rights and control rights in Canadian family-controlled firms. Unlike the US, Canada retains a weaker governance setting. Nevertheless, Canada does offer a strong legal protection regime for minority shareholders (André et al. 2012). Overall, their findings showed greater positive abnormal returns (announcement period stock performance) experienced by Canadian family-controlled companies which carried out corporate acquisition activities.[47]

[45] As measured by a dummy that equals to one if the dominant family owner is the largest shareholder of the family-controlled bidding firm, zero otherwise.

[46] Similar studies carried out by Faccio and Stolin (2006) for European family-controlled firms also found no evidence that corporate acquisitions activities are used for minority shareholders expropriation.

[47] Furthermore, their evidence also suggested nil effect of the separation of voting rights and cash flow rights in explaining the stock returns of the acquiring companies during announcement period; this is also supported by the findings of Bouzgarrou and Navatte (2013) for French family-controlled firms. The findings do not support studies of Claessens et al. (2002) and Lins (2003), which demonstrated a significant negative correlation between the deviation of cash flow and voting rights and firm value for companies in Asian countries.

In general, findings of Ben-Amar and Andre (2006) support the notion that Canadian family-controlled firms are involved in value-enhancing activities through corporate acquisition activities. This is consistent with the interest alignment notion of *interest alignment hypothesis* whereby the resultant effect of large family blockholdings induces better strategic decisions specifically on corporate acquisitions. This evidence is also consistent with the findings of Holmen and Knopf (2004) for Swedish family-controlled firms but is not in agreement with those of Bae et al. (2000).

The studies of Basu et al. (2009) yielded contradictory findings, which demonstrated entrenchment of family owners with low levels of ownership in the acquiring firms (acquirers) and better alignment of interests with other minority shareholders at high levels of ownership. Different from previous studies, they examined the influence of family managerial ownership on value creation in mergers of new publicly listed US firms during the period 1993–2000. A less stringent ownership threshold is also employed in defining a family firm: founders or their descendants holding at least 5% of a firm's equity or are actively involved in the management of the firm.

Additionally unlike other studies, Basu et al. (2009) examined the wealth effect of corporate acquisitions of family-controlled acquirers, specifically on cash-financed acquisitions. They posited that since cash-financed acquisitions do not alter family ownership in the family-controlled firms, the stock performance of the acquiring companies can be easily and clearly observed. In essence, the stock performance is not affected by any value adjustments resulting from equity dilution via stock-financed acquisitions. Results demonstrated a nonlinear relation between the market reaction (as measured by cumulative abnormal returns) and family ownership for cash-financed acquisitions. The findings of the nonlinear relation between family ownership and stock

performance during the acquisition announcement period is consistent with findings of Ben-Amar and Andre (2006) as well as Feito-Ruiz and Menéndez-Requejo (2010).

These findings of Basu et al. (2009) demonstrate that for acquirers with low levels of family ownership, entrenchment effect prevails over the incentive alignment effect. In contrast, for acquirers with high levels of family ownership, the incentive alignment effect prevails over the entrenchment effect. This study suggests the importance of family ownership in explaining the stock performance of the acquiring firms (the acquirers) during corporate acquisition announcement period. It also demonstrates that the finding is consistent with the prediction of the neoclassical *interest alignment hypothesis* when the acquirers are with high level of family ownership. Family with high ownership stake in the company is prompted to perform value-enhancing corporate acquisitions.

Studies by Feito-Ruiz and Menéndez-Requejo (2010) dealt with the effect of different legal environments on the stock returns of acquiring companies during corporate acquisition announcement period. The research covered publicly listed firms from 23 European countries. Their results exhibited positive and significant stock returns experienced by family-controlled firms during the corporate acquisition announcement period. The evidence support the notion that on average, European family-controlled firms are involved in value-enhancing corporate acquisition activities. They also showed that stronger legal and institutional environments in the country where corporate acquisitions take place have positive influence on the wealth effect of corporate acquisition activities. In essence, the existence of controlling families as major shareholders of the companies was found to be a significant positive factor in explaining the stock performance of the acquiring companies during the corporate acquisition announcement period.

Similar to studies by Ben-Amar and Andre (2006), Feito-Ruiz and Menéndez-Requejo (2010) examined the possibility of nonlinear influence of family ownership on an acquiring firm's returns. Results showed significant negative effect of family ownership on stock returns of an acquiring firm when the ownership percentage level reached 32.11%. This suggests the possibility that large family owners of European companies are not acting in the interests of other shareholders when family ownerships exceed the concentrated level of 32.11% or more for the case of European family-controlled firms. It also supports the earlier findings of Morck et al. (1988) for US listed firms, which affirmed the nonlinear relation between insider ownership and firm performance.

In a recent study, Bhaumik & Selarka (2012) specifically examined the wealth effect of corporate acquisition deals performed by Indian family-controlled firms and business groups. The aim of this study is to enhance understanding of the behavioural differences between family-controlled firms in emerging and developed economies, as emphasised by Fan et al. (Fan, Wei, et al. 2011); it has been suggested that such regional comparative study is one of the key directions for future research. Indian family-controlled firms provide a platform for the study of two countervailing agency problems. In this emerging market economy with a weak system of governance, ownership concentration by controlling families and business group affiliations are ubiquitous. They propose that strategic decisions such as merger and acquisitions that transfer resources away from disbursement back to all shareholders may lead to unobservable benefits to controlling owners. The minority shareholders in this case may not have an equal share on the resultant benefits from this strategic decision.

Bhaumik & Selarka (2012) examined 228 corporate acquisition activities of Indian family-controlled firms during the period 1995–2004. Results revealed that family-controlled firms (the acquirers) experienced positive and significant wealth effect during the event announcement period of corporate acquisition activities (as measured

by cumulative abnormal returns). This result indicates that family ownership concentration in the hands of family managers improves the wealth effect of corporate acquisition activities on Indian family-controlled firms (the acquirers). However, the author has also highlighted that cautious interpretation on the results is necessarily. They have stated that the benefit of concentrated ownership in reducing manager-owner conflict may be replaced by principal-principal conflict. Concentrated ownership may not necessarily improve the outcomes of the acquisitions.

Recent studies by Bouzgarrou and Navatte (2013) for French family-controlled firms considered 239 acquisitions undertaken by French listed companies during the period 1997–2006. The French capital market offers a favourable context to study the wealth effect of family-controlled firms' corporate acquisition activities. The French capital market is dominated by companies with concentrated stock ownership, where French-controlling families are the major group of owners. In comparison with the strong investor protection in the US, the French regulatory system offers weak investor protection to the stock market players; meanwhile, greater protection is given to financial institutions such as banks. Overall, the results of Bouzgarrou and Navatte (2013) showed that French family-controlled firms outperformed nonfamily-controlled firms. French family-controlled firms realised significantly higher abnormal returns than nonfamily-controlled firms around the periods of corporate acquisition announcements.

The corporate acquisition literature suggests that most merger and acquisition activities do not significantly produce wealth effect for the acquiring firms (Campa and Hernando 2004; Martynova and Renneboog 2008; Tuch and O'Sullivan 2007; Alexandridis et al. 2010). However, reviews on these existing studies for the case of family firms demonstrate that when the specific roles of family ownership are considered, acquiring firms do experience significant wealth effect of corporate acquisition activities, either positively or negatively.

As mentioned by Faccio and Stolin (2006) as well as Shleifer et al. (1997), the evidence of agency problem have been exhibited from corporate acquisition activities. Hence in the case when family ownership and managerial position satisfactorily aligns along principal-agent interests, the family owner-manager would opt for value-maximizing corporate acquisitions that increase the overall shareholders wealth. Consequentially, the wealth effect (stock performance during corporate acquisition announcement period) of corporate acquisition activities of family-controlled firms becomes significantly positive.

Conversely, concentrated family ownership may also result in value-destroying behaviour of family owners, which would be reflected in the negative stock performance of family-controlled firms (the acquirers) during the announcement period of corporate acquisition activities. In this case, the stock depreciation is the reflection of investors' disapproval of the value-decreasing corporate acquisitions carried out by family-controlled firms. The investors interpret the corporate exercise as a means to expropriate the wealth of minority shareholders by the controlling families (Bhaumik and Selarka 2012).

3.3.1 What Is Learned From Past Existing Findings?

Past studies have revealed few important aspects in relevance to the literature of family firm and the wealth effect of corporate acquisition announcements. First, family is an important determinant to the wealth effect of corporate acquisition announcements across both emerging economies and developed economies. Studies consecutively documented empirical evidence of the significant wealth effect of corporate acquisitions that are experienced by family firms – the acquirers. These findings have challenged the traditionally perceived notion that corporate acquisitions do not create wealth to shareholders of the acquirers.

Second, family across different economies confer different significant wealth effect of corporate acquisition announcements, either positively or negatively. Studies that find positive wealth effect of corporate acquisition announcements support the notion of *interest alignment hypothesis* that family firms conduct value-enhancing corporate acquisitions. The interests of family owners-managers are well aligned, which result in better family firm value.

Conversely, studies that find negative wealth effect of corporate acquisition announcements support the notion of *expropriation hypothesis* that family owners-managers with concentrated shareholdings are entrenched. The entrenched controlling families conduct value-destroying corporate acquisitions at the expense of the minority shareholders, whilst the family gain in terms of private benefits. Studies have provided rationales of such value-decreasing behaviour from the controlling owners-managers. When the interests of the family owners-managers are not well aligned with other nonfamily shareholders, corporate assets may be deployed to serve the benefits and interests of the family owners-managers rather than the nonfamily shareholders

(Jensen and Meckling 1976; Morck et al. 1988, 1990). The benefits and interests of the family owners-managers encompass pursuit of non-value-maximizing objectives such as empire building (Morck et al. 1988), wealth transfer from the minority shareholders to the family owners (Bae et al. 2002)[48] or entrenching the position of family owners-managers to be more valuable and irreplaceable to other nonfamily shareholders (Shleifer and Vishny 1989). [49]

Existing findings overall suggest that family firms from different economies around the world exhibit different corporate acquisition behaviour and preferences. Their choices of corporate acquisition activities can be value-enhancing to shareholder wealth or value-destroying to the minority shareholders wealth. Different internal or external factors inducing these varied outcomes have been proposed, which can be due to the corporate governance system and legal environment of the country, social value and the controlling family ownership structure (as discussed in previous section 3.3).

Third, evidence reveals that there is a nonlinear (concave) relation between family ownership and the wealth effect of corporate acquisition announcements. The increasing level of family ownership inflicts significant positive wealth effect of corporate acquisitions. However, when family ownership stake increases to a certain point, the high level of family ownership inflicts significant negative wealth effect of corporate acquisitions. Past studies suggested that the increasing family ownership is beneficial to shareholders of family firms. The dominant family owners inherently carry the incentive to perform value-enhancing corporate acquisitions. However, when family ownership reaches to a certain concentrated level, the family become

[48] This strong evidence is supported by Bae et al. (2002) for the case of Korean *Chaebol*, when the activities of corporate acquisitions are performed among companies within the same business groups. Wealth is found to be transferred from the subsidiaries at the lower-end of the business group pyramids to higher-end of the business group pyramids, at the expense of the minority shareholders. This activity is also referred as *tunnelling*.

[49] The family owners-managers entrench themselves by making it costly for any potential replacement, gaining more freedom in action. When the investments make the family owners-managers valuable to the shareholders, they enable family owners-managers to raise their own compensation.

entrenched and perform corporate acquisitions for family interests and private benefits at the expense of the minority shareholders. The nonlinear relation between family ownership and firm value is also consistent with the findings of Morck et al. (1988).

Fourth, previous studies employed family firms that originated from various countries, each constitute a unique dataset. These unique datasets demonstrate the basis of different impact of family ownership on wealth effect of corporate acquisitions across different capital markets. Family firms from the developed economies may be hindered from conducting minority shareholder expropriation activities through corporate acquisitions due to the strong legal system. Family firms from the developing economies may be prompted to conduct minority shareholder expropriation activities through corporate acquisitions due to weaker legal system. This is consistent with the notion as highlighted in past studies that the activities of expropriating the minority shareholder can be extensive, especially in emerging countries with low investor protections, weak corporate governance and owners with concentrated ownership stake (La Porta et al. 2000; Johnson et al. 2000; Dyck and Zingales 2004).

Fifth, these studies have generally overlooked one important element that constitutes family firm studies, which is family-related characteristics.[50] As highlighted across Chapter 1 and Chapter 2, family firms have been documented to differ significantly from non-family firms across varied aspects. These aspects include board structure of family firms, managerial role of the controlling family, the existence of founder in owning and managing the family business, and the role of the descendants. Past findings have empirically documented the significance of these aspects in affect the value of family firms. Unfortunately, studies performed on these are scarce in the literature of corporate acquisitions. This study intends to provide further discoveries on the role of family-specific traits in determining the wealth of the shareholders, within

[50] Only study of Ben-Amar et al. (2006) has looked into few of the family-related characteristics which determine the wealth effect of corporate acquisitions for the study of family firms.

the context of corporate acquisitions and family firms. A discussion in relation to past findings on various family-related traits to family firm value is provided in Section 3.4.1.

3.4 Determinants of Family Acquirers Stock Market Returns

Existing studies have continuously examined relation between various factors and firm value. Consequently, the relation between these various factors and firm value is also extended to the strand of literature in association with the wealth effect of corporate acquisition announcements in previous studies. These examined explanatory factors cover different categories, which include firm characteristics of the acquiring firm, board characteristics, deal characteristics and family firm specific characteristics.

Hence, this section focuses mainly on reviewing existing prominent studies that have provided empirical evidence on the relation between these various explanatory factors and the wealth effect of corporate acquisitions for the acquirers. The section overall is organized as follows. In each of the following subsections, the review begins with family-specific traits and other found determinants in the literature. These findings are then compared and relate with those from the strand of literature in family firm studies, *if* any. These reviews provide further insight and predictions on the possible relation between these determinants and wealth effect of corporate acquisition announcements for family-controlled firms.

3.4.1 Family-Related Features

This section discusses existing family firm studies that have provided empirical evidence on the relation between specific family-related characteristics and firm value. Review of these existing studies provides further insight and support to the predictions on the relation between these family-related characteristics and the wealth effect of corporate acquisition announcements (within the context of family firms).

3.4.1.1 Family CEO

The active involvement of controlling families in the management of family firms in Asia has been a common feature of family-controlled firms (La Porta et al. 1999; Claessens et al. 2000; Faccio and Lang 2002; Lins 2003; Thillainathan 1999; Carney and Child 2012; World Bank Group 1999). Studies on the influence of active family management on family firm value through the role of CEO have been examined.

Advocate of agency theory argues that family CEOs are beneficial to family firm value. Family members are able to exchange their knowledge and skills from different dimensions with one another over a long horizon, which leads to better monitoring and disciplining (Fama and Jensen 1983b). In comparison with professional managers, family CEOs also have better access to resources, which can be acquired through informal and private networks (such as business groups). This is especially the case for family firms of emerging economies with weak market-supporting institutional settings, where access to resources is often not available through normal channels (such as banks) (Peng and Jiang 2010). Empirical evidence support the beneficial effect of active family management through the role of CEO on family firm value (Maury 2006; Sraer

and Thesmar 2007).[51] However, care must be exercised when generalising the notion that family CEO is beneficial to firm value, as these studies are performed on family firms from different countries with different cultural backgrounds and institutional settings. As highlighted (Fan, Wei, et al. 2011), these uncontrollable external factors can induce varied relation between specific family features and family firm value.

On the other hand, there are studies that documented the negative impact of family CEO on family firm value, particularly for the case of Danish family firms (Bennedsen et al. 2007). This is because family CEOs may deviate from the effort of maximising shareholders' wealth when no strict discipline is in place (Gomez-Mejia et al. 2003). Family CEOs may have incentives to adopt investment policies that only benefit the controlling families, while reducing the payout to other nonfamily shareholders (McConnell and Servaes 1990).

3.4.1.2 Founder CEO

Founder in general refers to a specific individual who is the pioneer in establishing a company (Mehrotra et al. 2013). An individual is also recognised as a firm's founder who is responsible for the firm's early growth and development into the business that it later becomes known for (Villalonga and Amit 2006).[52]

Prior research conjectures that founders add value to the company corollary to their specialised knowledge, long-term ownership and non-pecuniary ties to the company in

[51] Studies of Maury et al. (2006) and Sraer and Thesmar (2007) are performed for family firms from Western Europe and France respectively.
[52] Villalonga and Amit (2006) specifically deduce that a founder need not be the same individual who starts and incorporates the company, nor the one who bring the company into public listing status.

terms of reputational and emotional ties (James 1999; Demsetz and Lehn 1985). Additionally, founder is inherently a careful steward of the company in consequence of the incentive to monitor the business closely due to the great deal of their fortune and family future prosperity invested in the company (Anderson and Reeb 2003b; Villalonga and Amit 2006). The investment behaviour of founder is also found to differ from others. Block (2012) specifically discovers founder investment preference for high risk and high return investments compared with others, which are gauged by research and development activities. [53]

Empirical evidence, while mixed, overall leans in favour of a positive effect of founder on firm value when different aspects are considered and examined (Anderson and Reeb 2003b; Sraer and Thesmar 2007; Villalonga and Amit 2006; Fahlenbrach 2009; Miller et al. 2007; Adams et al. 2009; Saito 2008; Lee 2006; Andres 2008; Cucculelli and Micucci 2008; Pérez-González 2006; McConaughy et al. 1998). Miller et al. (2007) also emphasise that past findings of better family firm performance vis-à-vis nonfamily firm performance is due to the effect of lone founder.

Different factors have been highlighted in existing studies explaining the potential cost of founder to firm value. In particular, large founder with block ownership may derive greater benefit from pursuing firm growth, technological innovation, or firm survival, instead of enhancing overall shareholder value (Anderson and Reeb 2003b). With substantial equity stakes, founders have the incentives and influence to opt for activities that benefit themselves at the expense of firm performance (Aguilera and Crespi-Cladera 2012). Founders with large proportion of shareholdings may also exercise their large voting rights to block a hostile takeover even if the takeover brings a positive effect on firm value (Stulz 1988). Altruistic behaviour also exists among founders with the intention to pass down their ownership and control in the company

[53] To be precise, their results reveal that ownership of founder has a positive effect on research and development intensity and level of research and development productivity.

to the next generations, an action which may be detrimental to firm performance (Chua et al. 2009; Anderson and Reeb 2004; Bertrand and Schoar 2006).

Past studies also suggest the significant positive effect of founder on firm value due to founder's active involvement in managing the company[54] (Li and Srinivasan 2011; Gao and Jain 2011; Fahlenbrach 2009; Anderson and Reeb 2003b; Villalonga and Amit 2006). These studies have highlighted the fact that companies under the management of *founder-CEO* perform significantly well compared with those managed by either successor-CEO or professionally hired CEO.

Fahlenbrach (2009) specifically highlights several aspects that distinguish a founder-CEO from other types of CEO. Various inherent factors encourage the founder-CEO to pursue strategies that optimise shareholder wealth. To be precise, founder who is also the CEO of the company is less likely to be removed from the company in comparison with others. Specifically, these founders often consider establishment of the company as a life achievement. In consequence of their equity stake and entrepreneur status, founder is granted greater influence and decision-making power in the company. The considerable equity stake also further mitigates possible agent-principal problem, which results in improvement in firm value.

Firms with founder-director, instead of a founder-CEO, also exhibit different characteristics that are beneficial to the value of the firm. Past studies have specifically examined whether the performance of a family-controlled firm is influenced by the active involvement of the founder in running the business. Specifically, Li et al.'s (2011) findings reveal that hired CEOs of founder-director firms receive lower pay than CEOs in non-founder firms. Their findings also disclose that hired CEOs in the founder-director

[54] The involvement of the founder in the management of the company is gauged by the holding of the position as CEO.

firms have higher pay-for-performance sensitivity than hired CEOs of non-founder firms. They have interpreted the result as better governance of the company with the presence of founder-director, consistent with the claim of Core et al. (1999). Additionally, their results also exhibit that hired CEOs in founder-director firms are more likely to be replaced for poor performance compared with those of non-founder firms.

Within the context of corporate acquisition studies, André et al.'s (2012) findings support the significant positive correlation between the founder and the announcement-period-returns of the acquiring firms for Canadian family-controlled firms. Their corporate acquisition announcements cover 215 announcements for the period from 1996 to 2006. Specifically, the findings suggest CEO-founder performs significantly better corporate acquisitions vis-à-vis CEO descendants of founder or hired professional CEO. The findings overall support the notion that founder imposes significant positive effect on firm value. This inference is consistent with those of previous studies that support the notion of founder performing better value-added *corporate acquisition decisions* vis-à-vis other counterparts (Li and Srinivasan 2011; Fahlenbrach 2009).

Although prior studies generally suggest that founder-CEO can lead to good performance of a company, there are studies that have found that founder can also exert negative effect on firm value. Particularly, an event study has been performed to examine reaction of the stock market upon the sudden death of a founder (Bruce Johnson et al. 1985). The results demonstrate that the sudden death of founder CEO is associated with an increase in stock price, suggesting that founder-CEO hinders good firm performance.

3.4.1.3 Descendant CEO

It has been generally emphasised in past studies that inherited control is linked to poor family firm performance (Kidwell et al. 2013). The findings of Villalonga and Amit (2006) and Pérez-González (2006) state that when descendants serve as CEO, the firm value is destroyed. They examine specifically family-controlled firms in the US. Other studies also empirically showed that descendant-managed family firms exhibit poor financial performance in Canada (Morck et al. 1998), Thailand (Bertrand et al. 2008), Germany, the UK and the US (Bloom and Van Reenen 2006), Italy (Cucculelli and Micucci 2008) and Denmark (Bennedsen et al. 2007).

A notable exception is the findings by Sraer et al. (2007) revealing that French family-controlled firms continued to outperform nonfamily firms under the management of descendants. Additionally, a more recent study on Japanese family-controlled firms also reveals that inherited control improves family firm performance (Mehrotra et al. 2013), which is also consistent with a previous Japanese family firm study (Saito 2008). Notably, Japanese family-controlled firms that are under the management of non-blood heir (from arranged marriages or common adult adoption practices in Japan) outperform those under the management of blood heirs. For the case of Thailand, family firms perform marriages that add value to family firms, when the partners are from either prominent businesses or political families (Bunkanwanicha et al. 2013).

These findings demonstrate an important implication. The above mentioned findings overall proves that the past inferences for family firms of the examined economies do not necessarily apply to those of other economies due to dissimilar cultural, legal and economic settings as emphasised in previous family firm studies (Miller et al. 2007;

Cucculelli and Micucci 2008; Faccio et al. 2001; Bhaumik and Selarka 2012).[55] Within the context of family firms, the behaviour of family owners whether to act in the interests of the shareholders or act against the interests of the shareholders is dependent upon the legal and regulatory institutional environment of the country (La Porta et al. 2000; Peng and Jiang 2010). Existing studies demonstrate that family firms across different nations have their own set of practices and behaviours towards the strategic direction of family-controlled firms, which directly affect the future performance of family-controlled firms (Mehrotra et al. 2013; Bunkanwanicha et al. 2013).

In terms of corporate acquisition and family firm value, Sraer et al.'s (2007) evidence contrastingly reveals that descendant-CEOs of French family firms do not make better acquisitions. Specifically, the post-acquisition market value of the French family firms (*the acquirers*) is significantly lower than that of the French firms under the management of professional CEOs. The incapability of descendant-managed family firms in opting for significant value-added corporate acquisition activities is also evident among Canadian family firms. Specifically, André's (2012) study demonstrates that descendant-managed Canadian family firms do not experience any significant changes in market value when announcing corporate acquisition decisions of the companies.

Highlights from past family firm studies may explain the non-performance of descendant-managed family firms, in terms of firm value or non-value-added investment strategy. To be precise, family owners as highlighted earlier generally have incentives different from those of other types of dominant owners, which directly benefit family-controlled firms and their stakeholders. Specifically, for the purpose of passing down wealth throughout generations, family-controlled firms tend to view

[55] Unlike developed countries with a strong investor protection system, concentrated ownership is necessary for owners from nations with a weak investor protection system (Lins 2003). Owners seek to protect themselves by becoming the controllers of the company. The domination of concentrated ownership in nations with weak investor protection system is well documented (La Porta et al. 2000; Claessens et al. 2000; Faccio and Lang 2002; Carney and Child 2012).

business and investment from a long-term perspective (Bertrand and Schoar 2006). Consequently, family-controlled firms execute better investment decisions and thus avoid managerial myopia in the decision-making process (Stein 1989). However, concerns arise if heirs are unable to maintain these customs.

It has been highlighted in past family firm studies that transgenerational control of ownership and management may be detrimental to the long-term prosperity of family businesses (Chrisman et al. 2012; Schulze et al. 2003). This is due to the altruistic behaviour of family owners or the alleged *Fredo Effect* (Kidwell et al. 2013) when incompetent family members are chosen to take over the management position (Chua et al. 2009; Anderson and Reeb 2004; Bertrand and Schoar 2006). Specifically, altruistic parents are willing to sacrifice efficiency of managing corporate resources when passing down the control and ownership of firm resources to later generations, instead of seeking competent non-heir professional managers (Chami 2001; Morck and Yeung 2003). Consequently, the controlling family continues to keep the company under family control (Burkart et al. 2003; Chua et al. 2009; Cucculelli and Micucci 2008; Smith and Amoako-Adu 1999).

However, a recent study conducted for Japanese family firms reveals an entirely different notion of firm performance of inherited Japanese family firms (Mehrotra et al. 2013) from the conventionally perceived family curse that *wealth does not last over three generations* (Lee and Li 2009). Such contentious issue surrounding inherited control in a family firm has been continuously highlighted and examined (Amore et al. 2011; Cucculelli and Marchionne 2012) even decades earlier (Beckhard and Gibb Dyer Jr 1983) that maintaining the prosperity of businesses in a family firm over time has been difficult. Nonetheless, Japanese family firms (Suzuki, Suntory, Matsui Securities, etc.) have persistently proven their permanent existence worldwide, breaking the decree against declining family dynasty (The Economist 2012). Japanese firms are found to adopt unique practices to ensure the sustainability and prosperity of family

businesses via adult adoptions, arranged marriages and son-in-law successors (Mehrotra et al. 2013). These practices ensure both continuous acquisition of a talented pool of family members in managing the family businesses and also incessant family control over the family businesses (in terms of ownership and management). The authors further mention that these findings for Japanese family firms are at odds with those found in other developed economies in terms of the notion that inherited control erode family firm performance (Morck et al. 1998; Pérez-González 2006; Bennedsen et al. 2007).

3.4.1.4 Family Directors on Board

Grounded in agency theory, the governance role of the board is to deter the manager from engaging in an opportunistic behaviour that serves the manager's personal interests at the expense of the owner(s) of the company (Jensen and Meckling 1976). Studies continue to highlight the composition and structure of the board as an important element affecting the strategic direction and performance of the company, which ultimately affect the wealth of the shareholders (Arena and Braga-Alves 2013; Black et al. 2012; Li and Srinivasan 2011; Rosenstein and Wyatt 1997).

Ideally, the governance role and functions of the board of a family firm should not differ from those of the others. Different from nonfamily firms, the corporate governance function of takeover market, institutional investors and even incentive compensations provide less governance function in family firms (Gomez-Mejia et al. 2003; Kole 1997; Shivdasani 1993). This further emphasises the pivotal role of the board in family firms to govern the behaviour and actions of the controlling family owners. As emphasised by Anderson and Reeb (2004), the boards of family firms can be possible mechanisms to limit expropriation of shareholder wealth by family owners with large shareholdings.

However, a study (Anderson and Reeb 2004) has revealed that family-controlled firms often seek to minimise the presence of independent directors and are reluctant in the adoption of monitoring practices (Chen and Nowland 2010), which may inevitably harm the shareholders' wealth if the actions of the board are not effectively monitored. Recent research has further found that the board of a family firm tends to be dominated by family members (García-Ramos and García-Olalla 2011), which negatively affects family firm corporate governance practice and in turn firm value (Cheung et al. 2013; Anderson and Reeb 2004). Nonetheless, specific studies on the relation between the boards of firms with controlling shareholders (specifically families) and firm valuation remain scant (Collin and Ahlberg 2012; Cheung et al. 2013).

The important question that needs to be answered is whether the board with family directors continues to act in the interest of all the shareholders. From an agency perspective, if the board of family firms continues its governance role, the investment decision of family-controlled firms would be value-adding to the firm's wealth. Studies have investigated the influence of family representatives on the board on firm valuation, with a concluded negative influence for Hong Kong public listed family firms (Cheung et al. 2013). Anderson and Reeb's (2004) study specifically showed the poorer performance of US family-controlled firms when the number of family representatives exceeded those of the independent directors on the board. Their findings further suggest that the board of family-controlled firms functions well in mitigating the conflict of interests amongst shareholders (*expropriation hypothesis*) with increased board independence. However, within the context of corporate acquisitions, no studies have been done if the domination of family members on the board significantly affects these investment decisions of the family-controlled firms, which in turn affect the value of the family-controlled firms.

3.4.1.5 Related-Party Corporate Acquisitions

For the case of companies with concentrated ownership, controlling shareholders can expropriate wealth from the minority shareholders (Johnson et al. 2000; Shleifer and Vishny 1997). For instance, controlling owners can extract cash by selling company resources through self-dealing transactions; conduct transfer of assets from their controlled listed companies to other companies under their control; and increase their control by acquiring additional shares at a preferential price (Johnson et al. 2000). Existing expropriation literature concluded the expropriation behaviour of controlling owners based on the indirect measure of cash flow rights and voting rights ratio (Claessens et al. 2000; Faccio and Lang 2002; La Porta et al. 1999). However, constant concerns arise with the derivation of the *precise* quantum of a controlling family's control rights (Lemmon and Lins 2003; Claessens et al. 2000; Carney and Child 2012), which have been continuously challenged (Glattfelder 2013). The *direct actions* of expropriation remain scarcely examined.

Few studies examine possible expropriation behaviour of controlling owners through related-party corporate acquisitions, which offer mixed findings (Bae et al. 2002; Buysschaert et al. 2004; Holmen and Knopf 2004). This approach offers a direct measure of possible expropriation behaviour of controlling owners based on these specific actions performed. Bae et al.'s (2002) findings reveal that Korean business groups perform corporate acquisitions within the same business group, which transfer wealth from the minority shareholders to the controlling owners. Evidence of Bae et al. (2002) support the notion that such intragroup activities are value-destroying to the minority shareholders. They refer to such minority shareholder expropriation activities as *tunnelling*. [56]

[56] High degree of ownership mechanisms through pyramids, dual-class shares and cross-holdings increases the potential for minority shareholder expropriation by the controlling owners through related-party corporate acquisitions (Holmen and Knopf 2004). This may generate incentives for the controlling owners to divert

However, this is not the case for business groups with controlling owners in other nations. Findings of Buysschaert et al. (2004) and Holmen et al. (2004) do not find any support for the value-destroying behaviour of the controlling owners through related-party corporate acquisitions, for the cases of Sweden and Belgian respectively. The results of Buysschaert et al. (2004) and Holmen et al. (2004) jointly suggest that such corporate acquisitions create value for the minority shareholders. Holmen et al. (2004) justify that the existence of extra-legal institutions (which include social norms, the press and tax compliance) hinders the controlling owners from expropriating the minorities when they have ample opportunities to do so. Within the context of Sweden, the controlling owners of the business groups do not perform intragroup corporate acquisitions for pecuniary gains. They initiate the acquisition activities among companies to reorganise the cash flow within the business groups for the benefit of capital constrained firms specifically.

Overall, these existing studies provide empirical support for the fact that controlling owners perform related-party corporate acquisitions either for the benefit of shareholder wealth, or at the expense of the minority shareholders. Existing studies reveal that the reasons for such mixed inferences are due to the varied legal environment, corporate governance environment and social norm from which these business groups originated.

Similarly, related-party corporate acquisitions are also allowed within the context of Malaysia. Pursuant to Chapter 10 Main Market Listing Requirements of Bursa, all listed companies need to disclose corporate acquisition activities as a *related party*

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resources among companies within the same business group through corporate acquisitions (Buysschaert et al. 2004).

transaction to Bursa when a transaction meets the definition of a related party transaction as defined in Chapter 10.02. Pursuant to Chapter 10.02, *related party transaction* means a transaction entered into by the company or subsidiaries which involve the interest of a related party. *Related party* means a director, major shareholder or person connected with such director or major shareholder, pursuant to Chapter 1 Main Market Listing Requirements of Bursa Malaysia.

In simpler terms, within the context of Malaysian family-controlled firms and related-party corporate acquisitions, a Malaysian family-controlled firm (*the acquirer*) acquires another company (*the target*), and both are not necessarily within the same business group. The corporate acquisition activities involve a related party when:-

i. The director or the owner of the target firm is family related to the director or the owner of the acquirer.
ii. The director or the owner of the target firm is also the director or the owner of the acquirer.

3.4.2 Free Cash Flow

Jensen (1986) posits that acquisitions are one of the means managers can spend cash in wasteful investments instead of paying it out to their shareholders. The presence of *excess cash* could therefore leave management with discretion to make value decreasing acquisition type of investment decisions. This is also known as the *free cash flow theory* or *agency cost of free cash flow*. The *excess cash* refers to *free cash flow*[57],

[57] Past studies measure the excess cash or free cash flow as *operating income before depreciation less interest expense, taxes, preferred and common dividends*

which implies remaining cash flow of a company from those that are already invested in available net-value-added investment.

In precise, if the management is acting in the interest of shareholders, the *excess cash* or free cash flow would be returned to the shareholders in the form of dividends or other forms of payout. However, the conflict between management's best interests and shareholders may deter the payout of free cash flow to the shareholders. In response to the condition when the company has too much liquidity and lack of good investment options, entrenched managers would attempt overinvestment in corporate acquisitions.

The value-decreasing behaviour of the managers signifies their possible motivations for empire-building and also their entrenchment for not acting in the interest of other shareholders. Hence in the case when managers are entrenched, they would intend to make themselves as valuable to shareholder and costly to replace by venturing into investments that are only valuable under the incumbent managers (Shleifer and Vishny 1989). In essence, when there is excessive cash available, entrenched managers would utilize the excess cash for their own purpose and benefit.

Consequently, to determine if managers of the acquiring firms (the acquirers) are entrenched, the relation between the measured *excess cash* of the acquiring firms and the wealth effect of corporate acquisition announcements (stock return changes during corporate acquisition announcement period of the acquiring firms) have been examined in the literature of corporate acquisitions. In precise, the negative relation between the excess cash and stock performance of the acquiring firms during corporate acquisition announcement period suggests management entrenchment in opting for value-decreasing corporate acquisition decisions. It also further

demonstrates that when managers are presented with the opportunity to opt for value-decreasing investment decision (in this case corporate acquisition decisions), they would.

Lang et al. (1991) studies showed negative relation between acquiring firm free cash flow and acquiring firm stock performance during the observed corporate acquisition announcement period, but only for firms with low investment opportunities (as measured by q-ratio). This signifies that entrenched managers would opt for corporate acquisitions instead of wealth distribution back to the shareholders, especially for the case when the company no longer has growth opportunities (as measured by Tobin's Q). Their sample covered 101 US mergers for the period of 1968 to 1986. The stock performances of the acquiring firms were documented to be significantly negative especially for acquiring firms with high cash flow and low q ratio.

Harford (1999) studies also revealed that cash-rich acquiring firms are more likely in performing corporate acquisitions than other firms. Their evidence also further enlightened that acquisitions made by cash-rich firms are value decreasing. Their sample comprises of 487 US corporate acquisition events for year 1977-1993. However, as this study employed only corporate acquisition events that acquired public listed targets, the inferences can possibly be biased attributable to cases as such. As mentioned by Netter et al. (2011) outcomes of past merger and acquisition studies could be an artefact of the samples used, which generally oversample large publicly traded targets.

Studies consecutively support previous findings (Smith and Kim 1994; Kaplan and Weisbach 1992). However, there are studies that do not support the notion that excess

cash of the acquiring firms is a significant explanatory factor for the wealth effect of corporate acquisition announcements (Moeller et al. 2004).

Past evidence overall revealed significant negative correlation between the excess cash of acquiring firms and valuation effect of corporate acquisition announcements. This suggests that managers of the examined acquiring firms are entrenched, for not opting for investments that are value-added. Furthermore, it also demonstrates that entrenched managers would opt for value-decreasing corporate acquisition decisions when presented with opportunities (when firms have excess cash and when firms are faced with low growth opportunities). In simpler terms, acquiring firms with extensive excess cash and especially those with poor investment opportunities, perform poorer and unprofitable corporate acquisition activities.

However, studies reveal that when specific ownership structure and feature is considered, the previously inferred correlation between free cash flow and firm value may not hold (Garvey 1992). The notion of *free cash flow theory* infers that manager misinvest excess cash when they are not concerned with the interests of the shareholders, which results in an inverse relation between free cash flow of the company and firm value. However, when the manager is monitored by existing large shareholder or the manager is the substantial shareholder of the company, the resultant effect on management investment options become ambiguous.

Empirical evidence revealed that concentrated shareholdings do not resolve the *agency costs of free cash flow* problem, based on the results exhibited from 322 US public listed firms (Garvey 1992). Specifically, the influence of large managerial shareholdings, institutional blockholdings or family ownership does not effectively deter the management in squandering excess cash of the company in unprofitable investments,

instead of distributing the excess cash back to the shareholders. This notion is also supported for East Asian firms[58] under the influence of large shareholders (Wei and Zhang 2008). Wei and Zhang suggested that East Asian firms with high level of free cash flows and with large shareholders are likely to go for overinvestment instead of returning the cash flow back to shareholders. This is again consistent with the *free cash flow hypothesis*.

However, when the large shareholders are the controlling family, the notion of *free cash flow hypothesis* does not hold. Recent studies of Kuan et al. (2012) showed that for family firms, the withholding of cash reserves from payout back to the shareholders are not necessarily detrimental to the shareholders of family firms, which is inconsistent with the notion of *free cash flow theory*. *Free cash flow theory* posits that the inclination of the management withholding the excess cash is to invest in wasteful investments. Kuan et al. (2012) showed that family firms with low level of cash reserves prefer to withhold cash for better investments opportunities. Hanazaki and Liu (2007) studies also provide alternative explanation for the behaviour of East Asian family-controlled firms in preferring to withhold cash, due to severe internal finance constraints together with the financing difficulty from external capital markets, in comparison to those of non-family firms. These studies further demonstrate the dissimilarity between Asian firms and others, in terms of investment behaviour and preferences.

Overall findings suggest possible positive correlation between free cash flow and firm value specifically for family firms. Inconsistent with the notion of *free cash flow* theory, the high levels of free cash flow in family-controlled firms may not necessary bring negative effect to firm value, due to the evidenced variant investment behaviour and preference of Asian family-controlled firms. As shown from abovementioned studies,

[58] The examined East Asian firms include Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand.

family-controlled firms exhibit different motives and intentions than non-family firms in terms of cash reservation.

3.4.3 Board Characteristics

Contemporary boards of directors are reckoned as the lynchpin of corporate governance with the task of monitoring the top management to ensure that the latter act in the best interests of the shareholders (Jensen and Meckling 1976). With fiduciary obligations to the vast shareholders and the essential role to determine the strategic direction of the company and monitoring, the role of board of directors in the governance of the corporation is imperative (Gillan 2006; Licht 2013). Studies have constantly indicated that the composition and structure of the board of directors is an important element in affecting the strategic direction and performance of the company, which ultimately affect the wealth of the shareholders (Arena and Braga-Alves 2013; Black et al. 2012; Li and Srinivasan 2011; Rosenstein and Wyatt 1997).

The board of directors have continuously been viewed as apparatus for ensuring that management actions agree with shareholders interest and also play a vital role in monitoring possible managerial opportunistic behaviour (Goodstein et al. 1994). The structure and composition of board also plays a role in significantly influencing the strategic function of the board and hence strategic directions of the company (Masulis et al. 2007). The generally perceived multifaceted tasks of the board include representing the vast shareholders of the company in advising, evaluating and monitoring the managers, determining executive compensation and endorsing corporate strategies. Most importantly, the board is also responsible in designing and ratifying material corporate strategy (Rosenstein and Wyatt 1997), which includes corporate acquisition decisions.

Different from non-family firms, the corporate governance function of takeover market, institutional investors and even incentive compensations provide less governance function in family firms (Gomez-Mejia et al. 2003; Kole 1997; Shivdasani 1993). This further emphasizes the pivotal role of board in family firms to govern the behaviour and actions of the controlling family owners. The boards of family firms can be possible mechanisms to limit expropriation of shareholder wealth by family owners with large shareholdings (Anderson and Reeb 2004). The boards of family firms are found to be generally passive (Corbetta and Tomaselli 2004) and are dominated by family members (Cheung et al. 2013). A moderate family members presence on the board relative to independent directors is found to provide considerable benefit to the family firms (Anderson and Reeb 2004).

The different features of boards of family firms in comparison to those of the nonfamily firms and the impact of board on family firm value are discussed in the following subsections. This subsection also discusses past findings that have provided empirical evidence of board-specific features significant impact on the valuation creation of corporate acquisition announcements.

3.4.3.1 Board Independence

The general consensus from the industry and academics is that an independent board of directors result in more effective corporate governance (Ryan and Wiggins 2004). Independent directors have been viewed as essential in monitoring the management of the company, in comparison to other directors (Byrd and Hickman 1992). Independent directors also represent important line of defence for minority shareholders against

opportunism of large shareholders (Anderson and Reeb 2004). From an agency theory perspective, independent directors also fulfil the monitoring role of board on the management better than other directors on board due to the minimal conflicts of interests with the shareholders, in comparison to other directors on board (García-Ramos and García-Olalla 2011; Fama and Jensen 1983b).

For Malaysia public-listed companies, the classification of an independent director (Bursa Malaysia 2012) is not much different from the generally perceived classification in other stock market. A director who is independent of management, business or relationship which could interfere the effect of independent judgement is classified as an independent director (Bursa Malaysia 2012). They are expected to be credible and to be equipped with necessary skill and experience to bring independent judgement on firm's strategy, performance and use of firm's resources (Finance Committee on Corporate Governance 2000). To perform their function effectively, the board should comprise 1/3 of independent directors.

There has been no consensus on the correlation between independent directors with firm performance. Some studies revealed evidence of the positive effect of independent directors on family firm performance (Anderson and Reeb 2004). Conversely, Agrawal and Knoeber (1996) found significant negative relation between independent directors and firm performance. There are findings that found no significant relation between board independence and firm performance (Baysinger and Butler 1985; Mehran 1995; Klein 1998).

For the case of Malaysia public-listed companies, Mak and Kusnadi (2005) also find no significant relation between independent directors and firm value. Haniffa and Hudaib

(2006) findings based on 347 Malaysia firms for the period of 1996-2000 also support this non-significant relation.

Within the stream of corporate acquisition literature, Byrd and Hickman (1992) showed that US acquiring firms with at least 50% of independent directors on board experienced higher positive wealth effect (*announcement-period stock returns*) of corporate acquisition announcement than other acquiring firms.[59] Additionally, Byrd and Hickman studies also reveal evidence of a nonlinear relation between independent directors and wealth effect of corporate acquisition announcements. This suggests that increasing independent directors on board do not necessary result in persistent positive effect on announcement period stock returns of the acquiring firms. When the fractions of independent directors on board exceed 60%, it affects negatively the announcement period stock returns of the acquiring firms.

Within the context of family firm studies, family firms yield different interpretation on the relation between board independence and value of family firms. Garcia-Ramos et al. (2011) findings contradict the common belief that more independent boards always lead to better firm value, when considering the effect of family ownership. The presence of independent directors on the board has positive effect on firm value when the company is managed by founder. This is consistent with those found for Spain family-controlled firms that are run by first generation (Arosa et al. 2010). Contradictorily, the correlation between independent directors on board with family firm value becomes negative when the company is run by the descendants (García-Ramos and García-Olalla 2011).[60] The presence of outside directors on the board do not necessary contribute positive effect to the family-controlled firm as a whole (Jonovic 1989). Classical board may only suit a few family firms. This notion is also supported by Ford (1989). Independent board members are less important than

[59] The authors employed samples covering 128 tender bids for the period of 1980-1987.

[60] Their sample firms specifically comprise of European family firms from Spanish, Portuguese and Italian publicly traded companies for the period of 2001 to 2007.

insiders for family firms. Past studies consecutively provide a valuable insight on the relation between board independence and family firm value. The significant contribution of independent directors to firm value do not necessarily applies within the context of family firm.

The non-significant role of independent directors on family firms' value can be due to specific family firm aspect. Under an ideal situation, independent directors may deter the board from opting incompetent family members from assuming key CEO positions (Shleifer and Vishny 1997). However within the context of family firms, greater commitment from family members and value overlap in family firms, which mitigate the need for board independence (Corbetta and Salvato 2004). Findings also demonstrate that the controlling families often seek to minimise the presence of independent directors and are reluctant in the adoption of monitoring practices, which do not necessarily result in detrimental effect on firm value (Anderson and Reeb 2004; Chen and Nowland 2010). Nevertheless, studies continue to emphasize the role of the independent directors on board remain necessary in family-controlled firms to safeguard the interests of the minority nonfamily shareholders from the controlling family discretion over firm resources (Miller and Le Breton-Miller 2006; Chen and Hsu 2009; Bammens et al. 2011).

Anderson and Reeb (2004) findings demonstrate family-controlled firms attitude toward the appointment of independent directors and the importance of independent directors on performance of family-controlled firms in US.[61] On average, independent directors hold 43.9% of seats on boards for family firms, which is lower than their sample of nonfamily firms at 61.2%. The results further support previous family firm study (García-Ramos and García-Olalla 2011) on family-controlled firms' reluctant attitudes toward the appointment of independent directors. The large founder family

[61] Anderson and Reeb (2004) sample firms covered those from S&P 500 for 403 non-utility and non-banking firms.

firms of US that are with relatively few independent directors perform significantly worse than non-family firms.

3.4.3.2 CEO Duality: Board Leadership Structure

Decision to uphold the separation of CEO role from chairman position on the board has been a recurring concern (Boyd 1995; Byrd et al. 2012; Dey et al. 2011). CEO duality or dual leadership structure occurs when the two most important positions on the board are held by the same individual in a corporation, namely the posts of CEO and chairman. Two theoretical arguments exist in association with the benefits and costs of separating the CEO and chairman role.

In precise, advocates of more effective corporate governance would opt for unitary leadership structure, where CEO remains independent from the position of chairman. Given that the board prime charter is to effectively monitor the decisions and actions of top management, CEO duality may impinge the necessary independent judgement required (Rechner and Dalton 1989). Agency theory asserts that splitting the titles of CEO and chairman between two people improves firm performance as the board of directors can better monitor the CEO (Harris and Helfat 1998; Worrell et al. 1997; Finkelstein and D'Aveni 1994; Brickley et al. 1997; Fama and Jensen 1983b). In consequence of maintaining a unitary leadership structure, agency costs in large organizations are reduced by separation of decision management from decision control (Boyd 1995). [62]

[62] Decision management refers to the right in initiating and implementing plans for any firm's resource allocation. Decision control refers to the right of approving and monitoring the implementation of firm's resource allocation.

On the other hand, stewardship theorists refute the negative effect of CEO duality on the company performance. They argue that CEO duality can be both a structural and psychological empowerment of the CEO, thereby encouraging CEO to better serve the company and the shareholders (Davis et al. 1997). Subsequent scholars have continuously given claims on the benefits of maintaining a dual leadership structure. In precise, performance of a company improves when the executive has greater authority to make critical decisions (Baliga et al. 1996; Harris and Helfat 1998; Finkelstein and D'Aveni 1994). Additionally, the surrounding economic environment and specific leadership requirements lead to CEO duality as the possible best option suited for firm's current business condition to achieve managerial efficiency (Dey et al. 2011; Brickley et al. 1997; Byrd and Hickman 1992). Byrd et al. (2012) and Brickley et al. (1997) specifically emphasized that the separation of the role of CEO and chairman do not necessary warrant better effect for the shareholders. The costs of separation are larger than the benefits of maintaining unitary leadership structure. CEO duality also lead to better firm performance by allowing CEO to obtain complete authority over the organization (Desai et al. 2003) and promote better communication across the board (Stoeberl and Sherony 1985).

Empirical evidence on the relation between CEO duality and firm value yielded conflicting results. Rechner and Dalton (1989) examine whether firms with CEO duality perform differently than firms without CEO duality.[63] Their results indicate no differences of shareholder returns. They concluded that CEO duality does not impact shareholder returns. However, subsequent study of Rechner and Dalton (1991) concluded that firms opting for independent leadership consistently outperform those with CEO duality.

On the other hand, another stream of studies finds that CEO duality is not a significant factor on firm performance. Baliga et al. (1996) find that the stock market does not

[63] Based on 141 Fortune 500 firms examined over the period 1978-1983.

care when announcements have been made on the duality status changes of CEO of *Fortune 500* firms for the period of 1980 – 1991. Other studies also support the inferences of no significant relation between firm value and CEO duality (Peel and O'Donnell 1995; Dahya and Travlos 2000).

Contrastingly, there are also studies that support the view that separation of CEO and chairman roles is value-enhancing to the shareholders. Worrell et al. (1997) find that the stock market reacts negatively to announcements when all three key executive positions – board chairperson, CEO and president, are held by same individual. They posit that this finding support agency theory that duality is detrimental to firm value. Rhoades et al. (2000) findings also support this notion of the association between higher firm value and separation of role duality.

For the case of Malaysian firms, the impact of board leadership structure on firm performance remains mixing.[64] Haniffa and Hudaib (2006) found the negative relation between CEO duality and firm value (as measured by ROA), but no significant relation when using market measure for firm value (as measured by Q-ratio). Another study (Chang 2004) on Malaysia firms found no significant relation between CEO duality and firm value, inconsistent with Haniffa and Hudaib finding. The results may be due to different firm performance measure employed for the study, which include the natural logarithms for both dividend payouts and ROE.

In comparison to non-family firms, the corporate governance effect of unitary leadership structure remains ambiguous for family-controlled firms, when the role of family ownership and family-specific traits are considered (Braun and Sharma 2007;

[64] For Malaysia, in relation to MCCG since year 2000, there is a requirement for the balance of power and authority between the chairman and CEO to avoid too much powers of decision made by one individual. Avoidance of role duality is recommended and should be explained in the annual report in the event of CEO duality.

García-Ramos and García-Olalla 2011) . The maintenance of a unitary leadership structure in family-controlled firms represents an important monitoring mechanism to safeguard the interests of nonfamily shareholders, since the interests of the nonfamily shareholders can be secondary to the controlling family. The combination of CEO and chairman role by the controlling family may compound agency costs borne by the nonfamily shareholders.

Braun and Sharma (2007) found that board leadership structure do not significantly affect firm performance. However, results also reveal that board leadership structure contains significant mediating effect on the relation between family ownership and firm performance. Specifically, for family-controlled firms that comply with good governance recommendations of maintaining a unitary leadership structure, lower family ownership is related to higher firm value. However, when family ownership increases, the firm value decreases. Additionally, no significant correlation between family ownership and firm value is observed for family-controlled firms that maintain dual leadership structure exhibit. Braun and Sharma (2007) suggest that the outcomes of the studies assert the governance effect of separating the role of CEO and chairman in family-controlled firm is beneficial to firm value, especially when the family owners are entrenched.

Within the context of family firms, García-Ramos and García-Olalla (2011) contrastingly documented varied effect of CEO duality on the value of family-controlled firms when the identity of the family owners are considered, specifically whether the family owners-managers are descendants or the founders. CEO duality is found to improve value of family-controlled firms that are under the management of descendants. Conversely, CEO duality plays no significant role on the value of family-controlled firms that are under the management of founder. They suggested that unitary leadership structure may be an unnecessary corporate governance mechanism in family-

controlled firms, in which the controlling family exerts de facto control over firm resources.

3.4.4 Firm Size

The origin notion of *size effect* can be traced back to the earliest paper by Banz (1981), who found evidence suggesting that returns were abnormally high for firms with relatively small market capitalisation. Subsequently Keim (1982) studies also revealed that over the entire 1931-1978 period the relation between daily abnormal returns and firm size was negative and more pronounced in January than in any other month. In general, *size effect* infers an inverse relation between firm size and firm value.

The implication of *size effect* is also examined in corporate acquisition studies. The overall inferences from past findings are that smaller size acquiring firms are good acquirers than larger size acquiring firms, based on the observed stock market reaction to corporate acquisition announcements. Moeller et al. (2004) results indicate robust evidence that small acquirers on average exhibit positive announcement-period abnormal returns and large acquirers on average exhibit negative announcement-period abnormal returns. Their samples comprise 12023 US corporate acquisition announcements for the period 1980-2001. They interpret this *size effect* as a support for managerial hubris hypothesis (Roll 1986). They find that larger acquiring firms tend to pay higher premiums and perform negative dollar corporate acquisitions. Furthermore, larger size acquiring firm is inherently an effective defender against takeover since it takes more resources to acquire a large size firm. Consequently, manager of larger acquiring firms is expected to be more entrenched and more likely to make value-decreasing corporate acquisitions, resulting in *size effect*.

Subsequent studies that specifically examine if size of the acquiring firms is a significant variable in explaining acquiring firm stock performance during corporate acquisition announcement period also support Moeller et al. (2004) findings. Based on a sample of 269 corporate acquisition activities for 1980 to 2003, Kräussl and Topper (2007) evidence also revealed the presence of size effect for Dutch stock market. Small firm size acquirers are found to earn abnormal returns of 2.45% higher than large firm size acquirers during corporate acquisition announcement period. Masulis et al. (2007), Faccio et al. (2006) and Bae et al. (2013) studies also document that size of acquiring firms has a significant negative effect on acquiring firm announcement-period stock returns. [65]

3.4.5 Target Firm Characteristic

3.4.5.1 Cross-Border Target and Domestic Target

Findings on the correlation between cross-border corporate acquisition and wealth effect of corporate acquisition announcements on the acquiring firms remain mixed. On one hand, studies also document the negative valuation impact of cross-border acquisitions on acquiring firms (Moeller et al. 2004; Conn et al. 2005; Bris and Cabolis 2008; Kuipers et al. 2009). The discovered correlation can be due to the fact that cross-border acquisitions may be less favored in conseuqnce of the payment of an unwarranted premium for a foreign company to enter foreign markets (Denis et al. 2002; Shaked et al. 1991).

[65] Past studies measure firm size as log transformation of acquiring firm's total assets (Masulis et al. 2007; Bae et al. 2013) and market capitalization (Moeller et al. 2004). Moeller et al. (2004) specifically segregate small (large) acquiring firms when the market capitalization of the acquiring firm is less (greater) than the market capitalization of the 25th percentile of the NYSE firms in the same year.

On the other hand, empirical researches have revealed that shareholders of acquiring firms place greater value on cross-border corporate acquisition activities than the domestic ones (Feito-Ruiz and Menéndez-Requejo 2011). This is consistent with prior studies that when acquiring foreign firms, acquiring firms experience significant positive announcement period returns for their corporate acquisition activities (Eije and Wiegerinck 2010; Ben-Amar and André 2006; Martynova and Renneboog 2008; Francis et al. 2008; Moeller and Schlingemann 2005). Cross-border acquisitions may be more favored by the acquirers than domestic acquisitions due to synergistic gains based on economies of scale and scope, access to additional knowledge, access to improved corporate governance (Walker 2000; Doukas and Travlos 1988; Markides and Ittner 1994). Other studies attribute cross-border acquisitions to the profit from differences in tax systems (Froot and Stein 1991). [66]

3.4.5.2 Private and Public-Listed Target

Public or private target refer to the corporate type of the acquired firm that is either a public listed firms or a non-listing firms. Past literature show that target firms that are private firms are found to significantly affect stock market reaction, positively. Consensual evidence reveals that when acquiring private targets, acquiring firms would experience a positive stock return from the corporate acquisition announcements (Chang 1998; Fuller et al. 2002; Ben-Amar and André 2006; Conn et al. 2005; Eije and Wiegerinck 2010; Faccio et al. 2006; Capron and Shen 2007; Bae et al. 2013).

Studies offer few explanations for such phenomenon of the significant and positive announcement-period stock returns association with acquisition of private targets, as experienced by the acquiring firms. Fuller et al. (2002) state that private firms are less

[66] There have been no existing family firm studies in current literature which focus specifically on examining the wealth effect of cross-border acquisitions or domestic acquisitions.

liquid and less easily sold, consequently they trade at a discount rate compared to those of listing firms. Such notion is also supported by Officer (Officer 2007) given that it is more difficult to sell private firms in comparison to public firms, there may be an inherent liquidity discount incorporated in the transaction price of private firm acquisitions. Conn et al. (2005) also state that private targets are less visible to the public which thereby leads to better possibility to terminate acquisition negotiations without a loss of face and thus avoid acquirers overpaying due to hubris. Consequently, the acquirers of private targets benefit from such discounts and inherent benefits when acquiring private targets.

3.4.6 Payment Method

Studies show mixing results regarding the effect of payment method in relation to the stock market's response to corporate acquisition announcements. Evidence reveals that market favour equity-financed acquisitions over cash-financed acquisitions. There are also findings that show cash-financed acquisitions induce significant positive market reaction.

Studies reveal acquirers that select cash-financed acquisitions experience significant positive wealth effect of corporate acquisition announcements. This is generally attributed to a signal by the management to the market that acquiring firm's management believes their stock is undervalued (Myers and Majluf 1984). Hence, management expects market to receive such signal and thereby revaluate and raise share value upon the announcement of company corporate acquisition activity that is financed with cash. Wansley et al. (1983) findings support the notion that cash-financed corporate acquisition induce significant positive stock market reaction. Consistent with Wansley et al. (1983) findings, Asquith and Bruner (1987) evidence also

reveals that acquiring firm experience significant stock market positive reaction when opt for cash payment mergers. They also further evidence that bidding firms stock returns decrease when attempting equity payment mergers. Subsequent studies also provide evidence of the significant positive effect of cash-financed corporate acquisitions on wealth effect of corporate acquisitions that are experienced by the acquiring firms (Linn and Switzer 2001; Walker 2000; Ben-Amar and André 2006; Moeller et al. 2003; Cumming and Li 2011; Chi et al. 2011).

On the other hand, existing studies also provide empirical evidence that acquiring firms experience significant negative stock market response when performing equity-financed corporate acquisition (Travlos 1987; Amihud and Lev 1981a; Brown and Ryngaert 1991; Servaes 1991). This is generally attributed to the adverse selection problem in equity issuance (Myers and Majluf 1984). Nonetheless, Chang (1998) and Fuller et al. (2002) report that the wealth effect of equity-financed corporate acquisition is less negative and even positive when target is privately held. They attribute this to the addition of new blockholders in consequence of the equity-financed corporate acquisition. Consequently, the acquiring firms may benefit from the active monitoring from the new blockholders who are also the new owners of the acquiring firms.

Subsequent to Chang (1998) and Fuller et al. (2002) discoveries, Masulis et al. (2007) have attempted to fully capture the effect of target type and acquisition payment method by interacting these two categories of factors. [67] Consistent with Chang (1998) findings, Masulis et al. (2007) finds that equity-financed acquisition increase announcement-period stock performance of acquiring firm, specifically when the target is privately held firm or an existing subsidiary. They also suggested that the difference

[67] The interactive indicator includes public cash-financed acquisition, public equity-financed acquisition, private cash-financed acquisition, private equity-financed acquisition, subsidiary cash-financed acquisition and subsidiary equity-financed acquisition.

in acquiring firm stock performance between acquisitions of privately held firm and public firm is due to equity payment method.

Within the context of family firms, Basu et al. (2009) examined the wealth effect of corporate acquisitions of family-controlled acquirers, specifically on cash-financed acquisitions. They posited that since cash-financed acquisitions do not alter family ownership in the family-controlled firms, the stock performance of the acquiring companies can be easily and clearly observed. The stock performance is not affected by any value adjustments resulting from equity dilution through stock-financed acquisitions. Their findings reveal that family with low level of ownership are more likely to perform cash-financed corporate acquisitions. This is to avoid the dilution of family control and ownership resultant from the issuance of new equity as the source of funds. The concern of the controlling family towards the dilution of family control from the issuance of equity is also supported by Amihud et al. (1990). Amihud et al. (1990) reports that firms with owners of concentrated ownership is reluctant to opt to equity-financed corporate acquisitions.

Basu et al. (2009) also demonstrate a nonlinear relation between the announcement-period CARs and family ownership for cash-financed acquisitions. Taken as whole, family owners with high ownership level perform value-enhancing corporate acquisitions due to their interests are well aligned with other shareholders. However, family owners with low ownership level are entrenched. Evidence reveals that family ownership with low ownership experience negative announcement-period abnormal stock returns when performing corporate acquisitions. This overall suggests that the level of family ownership play vital role in explaining and revealing whether family owners' interests are well aligned with other shareholders, which thereby determine the valuation effect of their corporate acquisition activities.

3.4.7 Relative Acquisition Size

Empirical evidence claims that large acquisitions relative to the size of the acquiring firms destroy value of the acquiring firms (Alexandridis et al. 2013). Accordingly, acquirers experience greater losses when acquiring relatively larger targets due to higher probability of overpaying. This is especially the case for confident managers who overestimate their own ability to extract benefits from the acquisitions (Roll 1986; Malmendier and Tate 2005) or for top management who are promised higher private benefits (Morck et al. 1990; Loderer and Martin 1990; Harford and Li 2007).

Existing studies have demonstrated that wealth effect of corporate acquisitions is subjected to the influence of the acquisition transaction value.[68] Asquith et al. (1983), Moeller et al. (2004) and Bae et al. (2013) provide evidence that announcement-period stock performance of the acquiring firms is positively related to acquisition size. Specifically, Moeller et al. (2004) documented that corporate acquisitions made by large size acquiring firms result in losses when acquiring large targets. In general, the significant correlation documented signifies that a more favourable valuation effect of corporate acquisition announcement is realised for the acquiring firm when the acquisition size is relatively large.

On the other hand, Travlos (1987) and Alexandridis et al. (2013) documented a contradictory significant negative correlation between wealth effect of corporate acquisition and acquisition size. Conversely, Masulis et al. (2007) do not find any significant impact of acquisition size on wealth effect of corporate acquisition. However, they do find that acquisition size significantly and negatively explains the

[68] The acquisition size is measured as the ratio of market value of target's equity to the market value of the acquiring firm's equity (Travlos 1987); it is the sum of all consideration paid, excluding fees and costs, divided by market value of equity of the acquiring firm (Moeller et al. 2004; Masulis et al. 2007); alternatively, it is the ratio of the market capitalisation of the target firm relative to market median (Alexandridis et al. 2013).

wealth effect of corporate acquisition only for corporate acquisitions that are performed between two companies from the high tech industries. They explain that it is difficult for these companies of relatively comparable size to integrate smoothly due to the comparably important capital and intellectual property in high tech companies, which are often lost in employee turnover after the acquisitions. Acquirers are more likely to underestimate the costs and overestimate the synergies generated.

3.5 Summary

In summary, corporate acquisition announcements contained in past relevant studies that have been examined in this chapter shed light on a controversial issue: do family-controlled firms of developing countries engage in activities that extract private benefits of control at the expense of the minority shareholders or do they engage in value-enhancing activities? Past evidences of family firms and corporate acquisition studies inferred that the benefits of family owners with concentrated ownership outweigh the costs of potential minority shareholders expropriation, or vice versa. As emphasised by Johnson et al. (2000), controlling family owners can make suboptimal investment decisions, which increase the socio-political influence of the controlling family at the expense of the minority shareholders. On the other hand, the notion of *interest alignment hypothesis* claims that the inherent concentrated ownership by family owner-manager naturally align the interests of principals and agents, which leads to better investment decision. Faccio and Stolin (2006) as well as Shleifer et al. (1997) have also highlighted that the evidences of agency problem have been clearly exhibited via corporate acquisition activities. Overall from a theoretical point of view, it is not clear which of the two effects prevails in firms with large family owners: an increased positive effect of concentrated family ownership due to better alignment of owner-manager interests or the entrenchment of family owners that would go for extraction of private benefits that are harmful to minority shareholders.

As discussed, relevant examinations were conducted on the role of family-controlled firms and wealth effect of corporate acquisition announcements, in relation to the varied effects of ownership structures, legal and judicial systems as well as institutional environments of different countries. The evidences of these studies have been rife with disagreements. Some found family-controlled firms do perform corporate acquisition activities that are value-enhancing to shareholders of the acquiring firms. Others unearthed evidence that family-controlled firms perform corporate acquisition

activities that are detrimental to the wealth of minority shareholders but value-enhancing to the controlling family in terms of wealth or private benefits that are not shared with the minority shareholders.

In general, based on past studies examining other stock markets, family ownership is an important factor in explaining the stock returns of family-controlled acquiring firms during the corporate acquisition announcement period. On average, family-controlled acquiring firms are found to induce positive investors' reaction when announcing one of the major corporate investment decisions – corporate acquisitions. This positive investor response is inconsistent with past overall findings that the stock returns of acquiring firms were insignificant during the corporate acquisition announcement period (Campa and Hernando 2004; Martynova and Renneboog 2008; Tuch and O'Sullivan 2007; Alexandridis et al. 2010). This further underscores the fact that wealth effect of family-controlled firms' corporate acquisition decisions is quite different from that of other non-family-controlled corporations with dissimilar ownership structures.

Overall evidence also revealed non-linear relationship between family ownership and stock performance of the family-controlled acquiring firms during the corporate acquisition announcement period. The documented non-linear relationship further suggests successful alignment between the interests of family owner-manager with the interests of other shareholders at low level of ownership; entrenchment from family owners (minority shareholder expropriation) creeps in following an increasingly concentrated family ownership.

There is evidence of minority shareholder expropriation activities carried out by Korean family-controlled firms through intergroup merger manoeuvres. However, it is not always true that corporate acquisition activities are employed by the controlling family

owners to extract private benefits at the expense of the minority shareholders. Hence, the conflicting findings and inferences of various studies cannot be generalised and applied to all stock markets. The main factor contributing to these divergent findings is the fact that these studies were undertaken in different countries, each of which has its own set of legal system, investor protection system, corporate governance system, social norms and cultural background. Again, this emphasises the importance of conducting individual studies for each country as the researchers are able to consider the above-mentioned factors in the local context with better control of data quality, and holding other factors constant, which might be difficult to disentangle in cross-country studies (Fan, Wei, et al. 2011).

Based on the review of past studies and in consideration of the influence of varied family ownership structures, ownership mechanisms, functioning of legal and judicial systems and institutional environment as mentioned in Chapter 2, an empirical question naturally arises: do family ownership structures of Malaysian family-controlled firms lead to a satisfactory alignment of principal-agent interests which induces value-enhancing corporate acquisition activities, or do they encourage family firms to indulge in minority shareholder expropriation behaviour by opting for value-destroying corporate acquisition activities as a result of concentrated family ownership? Furthermore, what are the determinants that affect significantly the wealth effect of corporate acquisitions for Malaysian family firms?

From the traditional corporate governance perspective, the use of control-enhancing mechanisms (pyramidal structures and concentrated ownership) by Malaysian family-controlled firms looks very vulnerable to abuse for extracting the wealth of minority shareholders. However, even with ample opportunities to expropriate minority shareholders, it does not necessarily mean that Malaysian family-controlled firms actually do so. Review from Chapter 2, nevertheless, shows that some Malaysian family-controlled firms are involved in questionable activities that amount to

expropriation of minority shareholders; these evidences are based on actual cases from the industries. However, are such behaviours also reflected in corporate acquisition activities of Malaysian family-controlled firms?

Overall, the review demonstrates that due to the distinctive features and characteristics of family-controlled firms, the relationship between different determinants and wealth effect of corporate acquisition announcements may deviate from those normally perceived for a company in general, especially those from the East Asian countries. The discussed determinants in this chapter included firm-related characteristics (free cash flow, corporate governance mechanisms and firm size), deal characteristics (domestic or non-domestic target, public or private target, payment method and relative deal size) and family-specific features. These deviations have been given explanations (in past studies) due to specific characteristics and features of family firms, which are not carried in other type of organizations. These further highlight the importance of understanding is needed regarding the effect of various determinants on firm value under the influence of family ownership in the extant literature, especially in the international context.

Studies that are mainly conducted for large public firms from developed countries also raise concern that the applicability of those results that may not apply to the non-developed countries, as a result of different institutional and economic settings. Such notion has also been highlighted by Miller et al. (2007), Cucculelli and Micucci (2008), Fan et al. (2011), Faccio et al. (2001) and Maury et al. (2013). The review in this chapter overall provides further predictions on the possible correlation between these firm-related characteristics with announcement-period stock returns of the acquiring firms, specifically under the influence of family-controlled firms for the forthcoming chapters.

CHAPTER 4 HYPOTHESES

4.1 Introduction

This chapter presents the development of hypotheses to answer the research questions and objective of this study. With reference to the family firm literature, corporate acquisition literature and corporate governance literature, a number of hypotheses are developed within the Malaysian context. From our discussions, a total of nine hypotheses emerge and articulated in Section 4.2. These hypotheses are used to examine the relation between family-related traits and the announcement-period wealth effect of corporate acquisition announcements. These family-specific traits comprise mainly family ownership, family management regime, board features of family firms and related party acquisitions.

Hypothesis 1 and Hypothesis 2 in Section 4.2.1 addresses **Research Question 2–** *Is family ownership an important corporate governance characteristic to determine whether Malaysian family-controlled firms perform value-enhancing or value-decreasing corporate acquisitions?* Hypothesis 3 until Hypothesis 8 in Section 4.2.2 – Section 4.2.7 addresses **Research Question 3–** *Are family-related traits important determinants of the market value changes in Malaysian family-controlled firms when undertaking corporate acquisitions?*

It should be emphasised that one of the family-specific traits examined in this study has hitherto not yet been empirically studied and given much attention within the corporate governance literature and family firm literature. Specifically, Malaysian family firms having family-related CEO and chairman on the board are commonly observable. However, such family-specific trait has never raised the concern as to whether such practices (while not against the current recommended corporate governance practices) are detrimental to firm value.

This chapter ends at Section 4.3, which presents an overall summary and conceptual schema of this study.

4.2 Hypotheses Development

4.2.1 Family Ownership

Corporate acquisitions have been one of the most researched corporate investment strategies over decades. The findings of these studies (Campa and Hernando 2004; Martynova and Renneboog 2008; Tuch and O'Sullivan 2007; Alexandridis et al. 2010) for firms in the European Union, the UK, the USA, France and Korea have been reviewed thoroughly and summarised. It has been concluded that on average, the acquired firms (targets) experience significant positive investor reaction during corporate acquisition announcement periods. In contrast, the value-creation effects of corporate acquisition announcements on acquiring companies have been reported to be insignificant. In other words, past empirical studies have concluded that corporate acquisitions fail to contribute significantly (either positively or negatively) to the acquiring firms (the acquirers).

This raises the concern that investors actually care less about the investment strategies of their invested companies. According to the *traditional valuation theory*, the stock market is expected to respond to the corporate acquisition decision of an acquiring firm (acquirer) upon the release of the announcement to the public, thereby inducing movement in the stock prices. Hence, the discovery is also in disagreement with the *traditional valuation theory* where the total market value of a firm is equal to present value of future expected earnings generated by existing assets and the net present value of future investment opportunities taken by firms in the future (Miller and Modigliani 1961).

Since growing attention has been given to family firms, a few studies have discovered that corporate acquisition decisions of family-controlled firms can be interpreted

differently in regard to the wealth effect of corporate acquisition announcements.[69] In consequence of the inherent characteristics of family-controlled firms, corporate acquisition decisions of family-controlled firms are found to result in significant stock market response upon the release of announcements to the public (either negatively or positively).

Two opposing hypotheses predict the relation between family ownership and wealth effect of corporate acquisition announcements. Based on the prediction of *interest alignment hypothesis*, the inherent alignment of interests between family owners-managers and the shareholders creates an incentive for family owners-managers to perform value-enhancing corporate acquisition activities. In accordance with the notion of *interest alignment* hypothesis, the market is expected to react positively and significantly to corporate acquisition announcements of Malaysian family-controlled firms.

However, existing empirical findings provide evidence that at a high level of insider shareholdings, the insiders become entrenched, resulting in a decrease in firm value. Such situation is generally known as *managerial entrenchment* (Morck et al. 1988; Hermalin and Weisbach 1991), which fosters the misallocation of company resources and attempts to block takeovers (Jensen and Ruback 1983). Looking further into this area, within the agency framework in family firm studies, family-controlled firms intrinsically lead to this second type of agency conflict known as the *principal-principal agency problem—Agency Problem II* (Villalonga and Amit 2006; André et al. 2012; Croci and Petmezas 2010), which differs in nature[70] from those in non-family firms (Chrisman et al. 2004).

[69] As discussed in Chapter 3.
[70] The differences are discussed in detail in Chapter 3—Section 3.2.2.

Hence, the beneficial effect of concentration of insider family ownership in aligning interests between manager and owner may be substituted with conflict of interest between family owners-managers and minority shareholders, in support of the *expropriation hypothesis* (Villalonga and Amit 2006; Bhaumik and Selarka 2012). There is a possibility that the controlling family may opt for value-destroying corporate acquisitions for private benefits that can only be enjoyed by the controlling family, at the expense of the minority shareholders of the acquiring firms (Bae et al. 2002). As the level of family ownership increases, the adoption of a non-economic objective of the controlling family becomes more likely (Chrisman et al. 2012). Consequently, if the investors loathe value-destroying corporate acquisitions of family-controlled firms, the market is expected to react significantly and negatively to corporate acquisition announcements of Malaysian family-controlled firms. Based on the existing opposing hypotheses that predict the relation between family ownership and wealth effect of corporate acquisition announcements, a null hypothesis is made in accordance with the *interest alignment hypothesis*; hence, it is hypothesised that:-

Hypothesis 1

There is a positive relation between family ownership and stock returns of Malaysian family-controlled firms during corporate acquisition announcement periods.

The juxtaposition of these two extreme agency problems (Agency Problem I and Agency Problem II) based on evidence drawn from Malaysia, an emerging economy where family insider ownership is common, shall enhance our understanding of the basic behaviour of Malaysian family-controlled firms vis-à-vis those from the developed economies. This reinforces the arguments of Fan et al. (2011) and Jameson et al. (2014) that the applicability of past empirical inferences drawn based on family firm studies from developed economies may not be relevant to the emerging markets, due to dissimilar cultural, institutional and economic settings.

There are also evidence that reveal a nonlinear relation between family ownership and family firm performance, for family firms of the S&P500 in the US (Anderson and Reeb 2003b), Poland (Kowalewski et al. 2010), Canada (Ben-Amar and André 2006) and Europe (Maury 2006). The notion of a nonlinear relation between family ownership and family firm value posits that as the level of family ownership increases, the beneficial effect of interest alignment between family owners-managers and shareholders on firm performance is substituted with conflict of interest between family owners-managers and shareholders. Hence, the adoption of a non-economic objective of the controlling family becomes more likely (Chrisman et al. 2012). To examine if there is a nonlinear relation between family ownership and firm market value within the context of Malaysian family-controlled firms and corporate acquisitions, it is hypothesised that:-

Hypothesis 2

There is a nonlinear relation between family ownership and stock returns of Malaysian family-controlled firms during corporate acquisition announcement periods.

In general, for the purpose of testing Hypothesis 1 and Hypothesis 2, the significance of stock market reaction to corporate acquisition announcements of Malaysian family-controlled firms is examined. Specifically, inferences of Hypothesis 1 and Hypothesis 2 are based on the *observed share price adjustments* upon corporate acquisition announcements of Malaysian family-controlled firms. The measurement employed for the share price adjustments in this study is discussed in detail in Chapter 5.

4.2.2 Family Management

As discussed in Section 3.4.1.1, one of the common features of family-controlled firms is the controlling family dominating the senior management position in family firms, especially among Asian family firms (Carney and Child 2012; Lins 2003). Advocate of agency theory argues that family CEOs are beneficial to family firm performance. In comparison with non-family-related CEO, exchange of knowledge and skills from different dimensions are exchanged with one another over a long horizon (Fama and Jensen 1983b). Furthermore, family CEOs also have better access to resources through informal or private networks (such as business groups) (Peng and Jiang 2010). Existing studies support the beneficial effect of family management on family firm value (Isakov and Weisskopf 2014). Existing country-level studies that have been respectively conducted on family firms from different countries show that family firms with founder CEO or descendant CEO have a positive impact on family firm value (Anderson and Reeb 2003b; Sraer and Thesmar 2007; Bunkanwanicha et al. 2013).

However, there are also studies that have provided different inferences on this notion. There are studies that showed the succession to CEO position by descendants deteriorates family firm value (Pérez-González 2006; Villalonga and Amit 2006), while some showed that firms under the ownership of heirs only perform positively when the descendants do not assume an active managerial role in the family firms (Barontini and Caprio 2006). There is also a study that finds descendant-managed firms do not exhibit significant relation with family firm value (André et al. 2012). These studies with mixed evidence were conducted on family firms from different continents across the US to Europe and Asia. The evidence raises the conjecture that different impacts of family managerial role on firm valuation differ across family firms from different countries. This can be due to the influence of different legal and institutional environments, and cultural settings of the family firms (Caprio et al. 2011; Fan, Wei, et al. 2011).

The non-consistent findings, in general, on the relation of family active management with family firm value from different countries raise the concern to further examine this notion within the context of Malaysian family firms. An important question that needs to be answered is: Does the active managerial role of controlling family as family CEO in Malaysian family firms induce better corporate acquisition decisions, which are value-adding to family firms? It is hypothesised that:-

Hypothesis 3

There is a positive relation between family CEO and stock returns of Malaysian family-controlled firms during corporate acquisition announcement periods.

4.2.3 Founder-CEO

As discussed in Section 3.4.1.2, in comparison with other types of firm owners, founding owners often better understand their businesses because of their active involvement in managing the firms. Founding owners have the incentive and motivation to monitor the business closely. They have a great deal of their fortune invested in the firms, and the future of their families depends on the successful operations of these firms; these personal interests spur many of these owners to become careful stewards of their companies (Anderson and Reeb 2003a; Villalonga and Amit 2006). Founders are able to add value to the company due to their specialised knowledge, long-term ownership and non-pecuniary ties to the company (in terms of reputational and emotional ties) (James 1999; Demsetz and Lehn 1985).

Several studies have compared the financial performance of firms managed by founders and firms managed by non-founders. Since the earlier years of corporate development, Willard et al. (1992) found no difference in financial performance between founder-managed and professionally managed firms. On the other hand, analysis by Anderson and Reeb (2003) indicated a positive relation between founding family owners and firm performance when founders were still active in the management of family firms. Later studies further supported the findings of Anderson and Reeb (2003) that founder firms showed superior performance (Lee 2006; Miller et al. 2007; Saito 2008; Andres 2008; Cucculelli and Micucci 2008; Adams et al. 2009). Within the context of corporate acquisition and family firms, studies have reported the positive effect of founder on value creation of corporate acquisitions (André et al. 2012; Sraer and Thesmar 2007). Overall, empirical evidence supports the notion that founders add value to family firms.

Within the context of corporate acquisitions, Andre et al. (2012) support the notion of founder positive effect on the announcement-period firm value of the acquiring family firms. This finding supports those found in previous studies that founder perform value-added corporate acquisitions (Li and Srinivasan 2011; Fahlenbrach 2009). A report from Grant Thornton (2002a) reveals that the majority of Malaysian family businesses are managed by founders. However, it is unclear whether founders are a significant influence in inducing Malaysia family-controlled firms to perform value-added corporate acquisition activities. Such family-specific features have not yet been empirically examined within the context of Malaysia. Hence, it is hypothesised that:-

Hypothesis 4

There is a positive relation between the founder-CEO and stock returns of Malaysian family-controlled firms during corporate acquisition announcement periods.

4.2.4 Descendant-CEO

As discussed in Section 3.4.1.3, the concern about inherited control in a family firm has often been highlighted and examined (Amore et al. 2011; Cucculelli and Marchionne 2012) even decades earlier (Beckhard and Gibb Dyer Jr 1983); it is generally accepted that maintaining the prosperity of businesses in a family firm over time has been difficult. It has also been generally emphasised in past studies that inherited control is linked to poor family firm performance (Kidwell et al. 2013). The findings of Villalonga and Amit (2006) and Pérez-González (2006) particularly assert that when descendants serve as CEO, the firm value is destroyed. They examined specifically family-controlled firms in the US. Other studies also empirically showed that descendant-managed family firms exhibit poor financial performance in Canada (Morck et al. 1998), Germany, the UK and the US (Bloom and Van Reenen 2006), Italy (Cucculelli and Micucci 2008) and Denmark (Bennedsen et al. 2007).

Different from the Western economies, studies conducted among Asian family firms showed that Asian family firms continue to perform well under the management of the descendants. Japanese family firms (Suzuki, Suntory, Matsui Securities etc.) have persistently proven their permanent existence worldwide, breaking the decree against declining family dynasty (The Economist 2012). A recent study conducted among Japanese family firms further reveals an entirely different notion on firm performance of inherited Japanese family firms (Mehrotra et al. 2013) from the conventionally perceived notion that *wealth does not last over three generations* (Lee and Li 2009). Japanese family firms are found to maintain family firm performance throughout generations by performing adoptions or marriages to bring in capable sons-in-law (or daughters-in-law) into the businesses (Mehrotra et al. 2013). Similarly, Thailand family firms tend to perform marriages that add value to family firms[71] to ensure the continuous good performance of the family firms (Bukanwanicha et al. 2013). These

[71] When the partners are from either prominent businesses or political families.

findings overall demonstrate that past inferences for family firms of the examined economies (Villalonga and Amit 2006; Pérez-González 2006) do not necessarily apply to those of other economies due to dissimilar cultural, legal and economic settings (Miller et al. 2007; Cucculelli and Micucci 2008; Bhaumik and Selarka 2012).

Succession decision continues to be one of the most contentious issues surrounding family firms (Deloitte Growth Enterprise Services 2013; Poutziouris et al. 2013; KPMG 2011; PricewaterhouseCoopers 2012). In Malaysia, Malaysian family-controlled firms are highly concentrated, with strong control by the founder families and descendants (Mallin 2011). A national survey by Grant Thornton[72] in collaboration with Malaysian Institute of Management (MIM) highlighted the attitude of Malaysian family businesses towards management succession (Grant Thornton 2002a). The survey reports that at an almost equivalent basis, one third of Malaysian family owners believe that management succession should be maintained within the family while another one third feel that management succession need not be maintained within the family. Corporate acquisition activities, in this case, provide a direct measure of heir's ability to make value-enhancing or value-decreasing investment decisions.[73] Based on the evidence documented for Asian family firms, this notion leads to the following hypothesis:-

Hypothesis 5

There is a positive relation between the descendant-CEO and stock returns of Malaysian family-controlled firms during corporate acquisition announcement periods.

[72] The complexity and special circumstances surrounding family businesses and the importance of family businesses to a country's economy are emphasised by Grant Thornton. Consequently, this brings to the establishment of this national survey worldwide, which is part of the unique service product of Grant Thornton's specialist service for family businesses—PRIMA (People and Relationship Issues in Management). To date, more than 30 countries have been involved in this academic research for family businesses which underpins PRIMA (Grant Thornton 2002b).

[73] One study has employed such method to study the impact of descendants on family firm performance for the case of French family firms (Sraer and Thesmar 2007).

4.2.5 Family Representatives on the Board

As discussed in Section 3.4.1.4, ideally, the governance role and functions of the board of a family firm should not differ from those of other non-family firms. However, studies reveal that family-controlled firms often seek to minimise the presence of independent directors (Anderson and Reeb 2004) and are reluctant to adopt monitoring practices (Chen and Nowland 2010), which may inevitably harm the shareholders' wealth if the actions of the board are not effectively monitored. Moreover, recent studies have found that the board of a family firm tends to be dominated by family members (García-Ramos and García-Olalla 2011; Collin and Ahlberg 2012); this negatively affects family firm corporate governance practices, which in turn has a negative effect on firm value (Cheung et al. 2013; Anderson and Reeb 2004). Nonetheless, specific studies on the relation between the board of family firms with controlling shareholders and firm valuation remain scant (Collin and Ahlberg 2012; Cheung et al. 2013).

From an agency perspective (Jensen and Meckling 1976), if the board of family firms continues its governance role, the investment decision of family-controlled firms would be value-adding to the firms' wealth. This naturally leads to the concern whether the board with family directors continues to act in the interest of all the shareholders. Studies have investigated the influence of family representatives on the board on firm valuation, with a negative influence concluded for Hong Kong publicly listed family firms (Cheung et al. 2013). The studies of Anderson and Reeb (2004) also showed the poorer performance of US family-controlled firms when the number of family representatives exceeded those of the independent directors on the board. Hitherto, no studies have been done to discover if the domination of family members on the board significantly affects these investment decisions of the family-controlled firms, which in turn affect the value of the family-controlled firms. Hence, with reference to

the literature and based on existing studies, for the case of Malaysian family-controlled firms, it is hypothesised that:-

Hypothesis 6

There is a negative relation between family representatives on the board (relative to independent directors on the board) and announcement period stock performance of Malaysian family-controlled acquiring firms.

4.2.6 Family-Related CEO and Chairman

As discussed in Section 3.4.3.2, CEO duality occurs when the positions of CEO and board chairperson are both held by the same individual in a corporation. Given that the purpose of prime board charter is to effectively monitor the decisions and actions of top management, dual role of CEO may impinge on the necessary independent judgement required (Rechner and Dalton 1989; Dey et al. 2011). Such notion is supported by agency theory, which asserts that the separation of CEO and chairman role on the board improves firm performance, as a result of better monitoring by the chairman (Fama and Jensen 1983b; Finkelstein and D'Aveni 1994). Furthermore, agency costs are also reduced by separation of decision management from the decision control (Boyd 1995).

Within the literature of family firms, the corporate governance effect of unitary leadership structure remains ambiguous for family-controlled firms, when the role of family ownership and family-specific traits are considered (Braun and Sharma 2007; García-Ramos and García-Olalla 2011). Unitary leadership structure in family-controlled

firms represents an important monitoring mechanism which safeguards the interests of non-family shareholders, since the interests of the non-family shareholders can be secondary to the controlling families. The combination of CEO and chairman roles by the controlling family may compound agency costs, which will be borne by non-family shareholders.

Within the context of family firms, there can be cases when the roles of CEO and chairman are separated between two individuals who are family-related. In this case, the roles of CEO and chairman that are held by family-related individuals are said to have lost its preliminary function of maintaining a unitary board leadership structure. Within the context of Malaysian family-controlled firms, such scenario is commonly observable. [74] The family relation between a chairman and a CEO on the board normally involves father-son, spouses, uncle-nephew or even siblings. Such setting is not against the guidance and best practices as recommended by the *Malaysian Code on Corporate Governance*. In the *Statement of Corporate Governa*nce in the annual report, the description given to the status of the chairman is generally stated as *independent* from the role of CEO. However, given that the purpose of prime board charter is to effectively monitor the decisions and actions of top management, (Rechner and Dalton 1989; Dey et al. 2011), such arrangement of independent roles of CEO and chairman who are family-related may impinge on the necessary independent judgement required.

Hitherto (Jameson et al. 2014), such family-specific features on the board have never been empirically examined within family firm literature and corporate governance literature. Therefore, this thesis aims to be the first to examine if the separated roles of CEO and chairman among family-related individuals inflict any significant negative effect on the value of family firms, within the context of corporate acquisition studies.

[74] As discussed and reported in forthcoming chapter—Chapter 5 Section 5.4.2

Hence, the existence of such arrangement within the context of Malaysian family-controlled firms leads to the following hypothesis:-

Hypothesis 7:

There is a negative relation between family-related CEO and Chairman and stock performance of Malaysian family-controlled acquiring firms during announcement periods.

4.2.7 Related Party Corporate Acquisition

The potential to abuse related party transactions by controlling owners has become a worldwide policy issue, although this behaviour is seldom banned (OECD 2012b). The importance of a corporate governance framework that manages related party transactions with the aim of protecting minority shareholders has been emphasised, especially for Asian countries with lower investor protection systems and with concentrated shareholding ownership structure, in comparison with those of developed countries (McCahery and Vermeulen 2013; OECD 2012b).

As discussed in Section 3.4.1.5, existing studies provide mixed evidence on the wealth effect of related party corporate acquisitions that are performed by family firms from different economies (Bae et al. 2002; Buysschaert et al. 2004; Holmen and Knopf 2004). Bae et al. (2002) documented expropriation behaviour of controlling owners through related-party corporate acquisitions for Korean business groups. On the other hand, Holmen et al. (2004) and Buysschaert et al. (2004) do not find any support for the expropriation behaviour of the controlling owners through related-party corporate acquisitions, for the case of Sweden and Belgian respectively. These existing studies are conducted among business groups with controlling owners under the influence of

different legal settings, corporate governance environments and social norms in which these related party corporate acquisitions are performed. Rationale has been given to possible expropriation behaviour by the controlling owners – for private benefits in the forms of pecuniary gains or non-pecuniary gains (Johnson et al. 2000). On the other hand, Holmen et al. (2004) also suggest that the existence of extra-legal institutions also hinders the controlling owners from expropriation behaviour when they have ample opportunities to do so.

Within the context of Malaysia, related party corporate acquisitions are allowed, in accordance with the Main Market Listing Requirements of Bursa. The permission to conduct such transaction provides controlling family owners with opportunities to extract private benefits at the expense of minority shareholders. This leads to an important empirical question: Do Malaysian family owners expropriate minority shareholders through related party corporate acquisitions? On the other hand, do Malaysian family owners perform related party corporate acquisitions for strategic purposes that are beneficial to the overall shareholders' wealth? Based on these arguments, it is hypothesised that:-

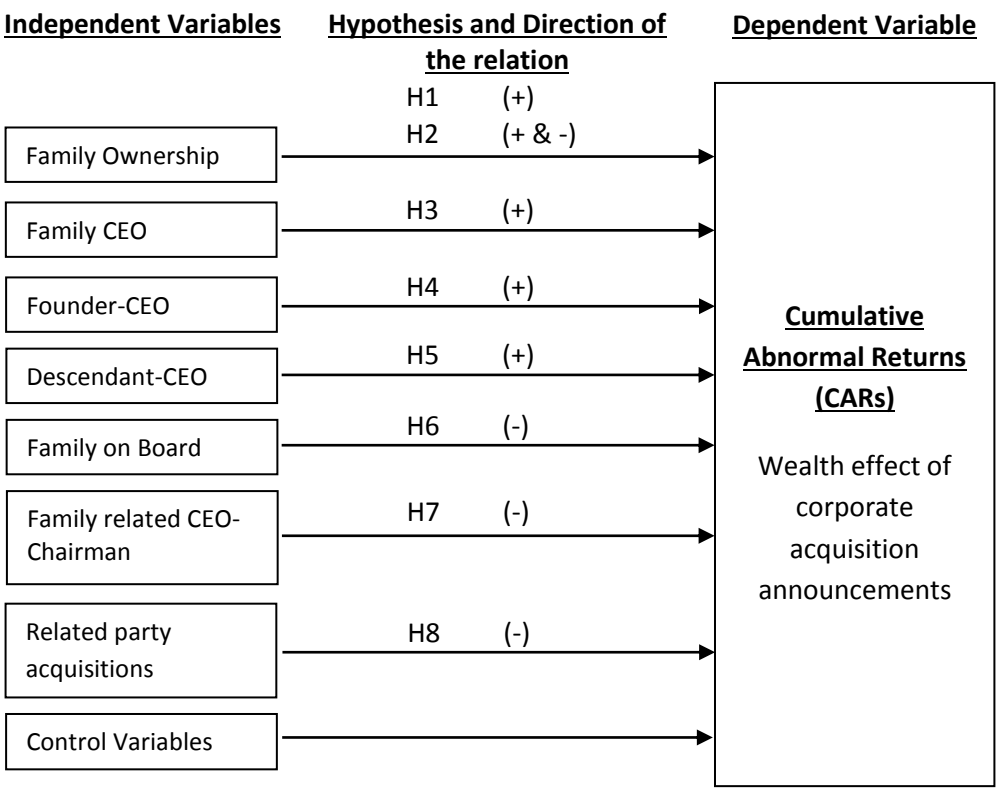
Hypothesis 8:

There is a negative relation between related party corporate acquisitions and stock performance of Malaysian family-controlled acquiring firms during announcement periods.

4.3 Summary

Eight hypotheses are constructed to explore family-specific features that may reveal a significant relation with the wealth effect of corporate acquisition announcements, within the context of family-controlled firms. The conceptual schema that depicts the relation among the key research variables is presented in **Figure 4.1**.

Figure 4. 1: Conceptual Schema



CHAPTER 5 RESEARCH METHODOLOGY

5.1 Introduction

This chapter focuses on explaining the data sources and research design used in this study specifically for Malaysian family-controlled firms, corporate acquisition announcements and other relevant information needed for the analysis. Descriptive statistics are also discussed at the end of this chapter.

Section 5.2 discusses the sample selection. Section 5.2.1 discusses the definition of Malaysian family-controlled firms in this study. Section 5.2.2 discusses the definition of corporate acquisition announcements in this study. Section 5.2.3 discusses the stock prices used in this study.

Section 5.3 overall discusses the dependent variable, independent variables and control variables in this study. The construction of the dependent variable using *event study methodology* is discussed in Section 5.3.1. The generated dependent variable – Cumulative Abnormal Returns (CAR), as specified in **equation 5.5**, is used as the measure of the announcement-period wealth effect of corporate acquisition announcements. Section 5.3.2 discusses the independent variables used in this study. Section 5.3.3 discusses the control variables used in this study. A summary of the measurement of the dependent variable, independent variables and control variables used for the research are presented in **Table 5.1** at the end of Section 5.3.

Section 5.4 provides data description and summary statistics on the examined variables. Section 5.5 discusses the methodology employed to examine the hypotheses. Specifically, to draw empirical inferences from this study, the use of CAR in both univariate analysis and multivariate analysis of the hypotheses are discussed in Section 5.5. Section 5.5.1 focuses discussion on univariate analysis while Section 5.5.2 focuses discussion on multivariate analysis. Brief discussions on the variable of interests to examine the hypotheses are presented in Section 5.5.2.1. Section 5.5.3 discusses the methodology for sensitivity test to determine the robustness of the findings is discussed at the end of the chapter. Section 5.6 summarizes the chapter.

5.2 Sample Selection

5.2.1 Malaysian Family-Controlled Firms

Based on the characteristics of Malaysian family-controlled firms as discussed in Chapter 2, a Malaysian publicly listed firm is considered as a Malaysian family-controlled firm meeting the following criteria:-

(i) At least one of the family members holds shares in the company;

(ii) At least one of the family members manages the company (as proxied by holding at least one position on the board, which is publicised information);

(iii) The family is the heir of previous founder, if any;

(iv) The family is the largest shareholder of the company. [75]

(v) The Malaysian family-controlled firm is a publicly listed company on the *Main Market of Bursa Malaysia* (previously known as *Kuala Lumpur Stock Exchange* before 14 April 2004);

(vi) The Malaysian family-controlled firms cover nonfinancial acquiring firms that are listed on the *Main Board* of *Bursa Stock Exchange* between the years 2001 and 2011 and have been an acquirer of corporate acquisition activities from the years 2002 to 2011.

(vii) Firms with a single dominating owner-manager (who can be a founder or a non-founder) is not considered as a family-controlled firm as there is a possibility that the single dominating owner-manager may not transfer their rights and control in the firms to their heirs (Villalonga and Amit 2006). [76]

[75] This is to ensure the absolute control of the dominant family over the family-controlled firms, in terms of ownership and management of the business. Family ownership is treated as the total corporate equity ownership held by *all* related family members. Hence, the total family ownership is accumulated among those that are held by related family members.

[76] Relevant detailed discussions in Chapter 2.

Two approaches are used to identify the presence of family in Malaysian publicly listed firms. The first approach is through *Shareholding Analysis*[77] of the annual report to trace the existence of family relationship among the shareholders. This approach allows the identification of item (i) and (iv). *Shareholding Analysis* is one of the mandatory sections to be disclosed in annual reports of all publicly listed firms on Bursa Malaysia. This section discloses the shareholdings held by *substantial shareholders*[78] and also the shareholdings held by the top thirty shareholders in the company. Details on both the direct and indirect shareholdings of the substantial shareholders in the company are disclosed, which specifically include those held by related family members of the substantial shareholders in the company. This mandatory disclosure is pursuant to *Chapter 9 – Continuing Disclosure Section 9.25 of Bursa Listing Requirement*. This requirement enables the existence of family relationship among family-related shareholders of the company to be identifiable.

The second approach to identify the presence of family is through the *Profile of Directors* as stated in the annual report. This approach allows the identification of item (ii), (iii) and (vii). Any family relationship among the members on the board or family relationship with a *major shareholder* is mandatory to be disclosed in the *Profile of Directors*. The *Profile of Directors* provides details of family involvement in the management of the company through their position as directors on the board. It is common to observe that family-related management groups normally have family members who act as chairmen, chief executive officers, managing directors or executive directors on the board. From the year 2001 onwards, the *Profile of Directors* became a mandatory disclosure in the annual reports for Malaysian publicly listed firms.

[77] Also known as *Analysis of Shareholdings*

[78] The definition of *substantial shareholder* is given in Section 69D of Companies Act 1965: a *substantial shareholder* can be an individual or a corporation (whether listed or unlisted) who holds no less than an aggregated 5% of total voting rights in a company.

5.2.2 Corporate Acquisition Announcements

C*orporate acquisition* refers to the situation where one firm takes over another existing firm through the acquisition of target firms' equity at specified terms and date (Halpern 1983).[79] During this process, the target (the *acquired* firm) ceases to exist, the buyer (the *acquirer*) *swallows* the business of the target, and the buyer's stock continues to be traded. The future generated incremental cash flows and the combination of the buyer and the target are expected to provide more benefits than prior to acquisition. The buyer is often known as the *acquirer*, the *acquiring firm*, or the *bidder*. The acquired firm on the other hand is often called target, *acquiree*, or *acquired firm*.

Based on the general criteria of existing studies (Vermaelen and Xu 2014; Netter et al. 2011) restricted to sample corporate acquisition announcements in this study, corporate acquisition announcements of Malaysian family-controlled firms (the *acquirers*), must satisfy the following criteria[80]:

1) Corporate acquisition announcements are publicly announced by Malaysian family-controlled firms on the *Bursa Malaysia* – Announcement Section on the website for the period of the year 2002 to the year 2011.
2) The release of the corporate acquisition announcement by the acquirer is pursuant to paragraphs 9.19(23) and 10.07(a) of *Bursa Malaysia Listing Requirements*.
3) The acquirer has annual financial statement information available and stock return data.
4) The acquirer purchased a stake of 50% or more in the target and owned less than 50% of the target prior to the purchase.

[79] A merger by definition is different from corporate acquisition activities, where a merger happens when two companies agree to continue their operations as a single new company rather than remain separately owned and operated.

[80] For the purpose of their studies, Vermaelen and Xu (2014) restricted their target type to public targets only. In this study, no restriction is imposed on target type, following the research pattern of Netter et al. (2011).

In event studies, there is an issue with isolating the wealth effect of the examined event when there are other confounding events (noises) surrounding the day of the examined event (McWilliams and Siegel 1997; Brown and Warner 1985; Konchitchki and O'Leary 2011; Groening and Kanuri 2013; Levy and Gunthorpe 1994; Deitz et al. 2013). C*onfounding events* have been found to experience significant market reaction upon the release of announcement for the confounding events. [81] Existing event studies also reveal that the inclusions of sample observations that are contaminated with confounding events cause bias to the inferences made (Rosenstein and Wyatt 1990; Deitz et al. 2013). [82] These studies reveal that the inclusion of sample events of concern that are contaminated with confounding events have material effects on the results. The stock price reactions that arise are due to the confounding events surrounding the event examined.

Hence, based on findings from past event studies, to isolate the wealth effect of corporate acquisition announcement from the biases caused by other confounding events, contaminated corporate acquisition announcements are not examined in this study. [83] To be precise, contaminated corporate acquisition announcements with any occurrences of confounding events five days before and after the announcement day are not examined in this study. According to the suggestions given by McWilliams and Siegel (1997), these confounding events include earning announcement (Brown and Warner 1985), stock split announcement (Cannella and Hambrick 1993), equity offerings announcement (Masulis and Korwar 1986), asset acquisition announcement

[81] For instance, past studies have revealed significant stock market reaction surrounding the days of announcement day for earning announcement. (Brown and Warner 1985), stock split announcement (Cannella and Hambrick 1993), equity offerings announcement (Masulis and Korwar 1986), asset acquisition announcement and corporate acquisition announcement (Fuller et al. 2002)

[82] Rosentein and Wyatt's (1990) study revealed that any gain in power as a result of an increase in sample size after including contaminated sample announcements is overshadowed by the added noise inherent in the contaminated sample.

[83] Groening and Kanuri (2013) removed contaminated observations with confounding events that occurred three days before and after the examined events of their study. Barbopoulos and Sudarsanam (2012) exclude contaminated sample acquisition announcements from analysis when there are clustered takeovers. Various event studies have excluded sample announcements that are contaminated with confounding events surrounding the announcement day or on the day of the announcement day. (Cooper et al. 2005; Levy and Gunthorpe 1994; Deitz et al. 2013; Lefanowicz et al. 2000; Afshar et al. 1992; Otchere and Ip 2006; Zhang 1997; Chikh and Filbien 2011)

(McConnell and Muscarella 1985) and clustered corporate acquisition announcement (Barbopoulos and Sudarsanam 2012).

With reference to studies by Netter et al. (2011) and Vermaelen and Xu (2014), both privately held targets and public targets are examined in this study. This study also does not impose restrictions on the deal value, as was the trend in past corporate acquisition studies (Netter et al. 2011; Vermaelen and Xu 2014). Netter et al. (2011) emphasise the misleading inferences made by researchers conducting past corporate acquisition studies based on *unrepresentative samples*. Past corporate acquisition studies restrict sample corporate acquisition announcements to those with large publicly listed targets and large deal value. According to Netter et al. (2011), inferences on wealth effect of corporate acquisition announcements from past studies are drawn based on relatively small and unrepresentative samples. Furthermore, the study by Netter et al. (2011) provides strong evidence that acquirers experienced significant positive wealth effect of corporate acquisition announcements. This discovery contradicts past corporate acquisition findings, which generally suggested corporate acquisition announcements do not create value to acquirers.

5.2.3 Daily Stock Price

Daily stock prices of the acquiring firms – Malaysian family-controlled firms are needed to examine the wealth effect (*valuation* effect) of corporate acquisition announcements. The daily stock prices of the examined Malaysian family-controlled acquiring firms are retrieved from Bursa (Malaysia Stock Exchange). The stock price data of the acquiring firm are used for computing daily stock returns in this study. The stock price of the acquirers covers the period from the year 2001 to the year 2011.

5.3 Variable Construction

5.3.1 Dependent Variable

To measure the effects of a corporate acquisition announcement on the value of an acquirer, cumulative abnormal returns (CAR) are calculated using the standard event study methodology (Brown and Warner 1985; Campbell et al. 1997). The application of the method is discussed in Sections 5.3.1.1 - 5.3.1.3.[84] The CAR is specified in **equation 5.5**. The generated CAR as specified in Sections 5.3.1.1 - 5.3.1.3 are used in both univariate and multivariate analyses.

[84] To examine the valuation effect of corporate acquisition activities on the acquirers (the acquiring firms), other available approaches include the market-based methodology (long-run stock performance) and accounting methodology. The shortcomings of these two approaches have been identified. Martynova & Renneboog (2008) and Kothari and Warner (2007) Provide comprehensive review of past evidence on the limitations and weaknesses of long run stock performance event study methodology. Past corporate acquisition study also employs short-run stock performance event studies due to the methodological concerns with the employment of long-run stock performance studies. (Masulis et al. 2007). Andrade et al. (2001) also mentioned that problems arise when using accounting performance to measure the wealth effect of corporate acquisitions.

Event study methodology posits that the valuation effect of an announcement should be reflected in the changes of stock prices when market adjusts its expectation of future earnings from businesses (Salter and Weinhold 1982). In simpler terms, event study methodology produces measures that determine the impact of a specific event on the market values of a sample of firms. Examination of the valuation (*wealth*) effect of an event (or an announcement) on a firm's market value using event study methodology has been a major focus in prior event study research since this methodology provides a powerful setting to examine the informativeness of an event as assessed by market participants (Konchitchki and O'Leary 2011). Event study methodology is also one of the solutions to hinder the common *latent factor* (causal interpretation) that impels a significant relation between an observed factor and firm's market value, since capital market valuation data carry a forward looking trait (Morck and Yeung 2009). The derivations of CAR involve three main stages, and these are discussed in the following sections from Sections 5.3.1.1 - 5.3.1.3.

5.3.1.1 Abnormal returns

The daily stock returns employed for the event study methodology are derived for each event firm as:

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}} \qquad \textbf{Equation 5.1}$$

, where $P_{i,t}$ is the closing price for event firm *i* on day *t*. Each event firm *i* refers to a publicly listed Malaysian family-controlled firm that made a public corporate acquisition announcement.

The basic aim of event study methodology is to isolate the effect of certain events on stock returns from other factors influencing the movement of the stock returns (MacKinlay 1997). This effect is examined through *abnormal return*. The abnormal return is the difference between the predicted return (expected return) and the actual return during the examined event period, which can be specified as:-

$$AR_{i,t} = R_{i,t} - E(R_{i,t})$$ **Equation 5.2**

, where $AR_{i,t}$ of event firm *i* at event date *t* represents a stochastic error term that has an expected value of zero and is uncorrelated over time. R_{it} is the actual observed return of firm *i* on day *t*. $E(R_{i,t})$ is the expected return for event firm *i* on day *t*. The deviations of actual return from the expected return are attributed to the event and constitute the abnormal return (MacKinlay 1997).[85]

Once the event study timeline is defined, a return generating model is used to generate the expected return, $E(R_{i,t})$. The deviation between expected return and the actual observed return, $R_{i,t}$, generates the abnormal return for each event firm *i* on day *t*, as specified in **equation 5.1**.

In this study, *market model* is used as the return generating model to generate the expected returns.[86] The use of market model has been a universal measure used in event studies to assess the wealth effect of an event until today (Corrado and Truong

[85] Detailed description of event study methodology is discussed in MacKinlay (1997).

[86] Independent of any return generating model used for the estimation of the expected returns, concerns still arise due to the fact that there is no true data generating process underlying the stock returns that is known to the researchers. (Kramer 2001)

2008; Strong 1992; Asimakopoulos and Athanasoglou 2013; Bhaumik and Selarka 2012; Corrado 2011; Netter et al. 2011; Amira et al. 2013; Pevzner et al. 2013; Zhao 2013). Market model is also widely used in event study of corporate acquisitions (Harford et al. 2012; Campa and Hernando 2004; Martynova and Renneboog 2008; Tuch and O'Sullivan 2007; Alexandridis et al. 2010; Cai and Sevilir 2012). Studies reveal empirical evidence that the generation of CAR using market model and national market indexes provides valid inferences for event studies (Campbell et al. 2010). [87]

Existing empirical findings collectively proved the ability of market model to yield valid findings. Among various existing return generating models, studies show that the three commonly used models – mean-adjusted model, market-adjusted model and market model yield similar power abilities to detect the presence of abnormal performance (Dyckman et al. 1984; Brown and Warner 1985; Wübben and Schiereck 2007; Campbell et al. 2010). Brown and Warner (1980) found no evidence that more complicated models convey any additional benefit in measuring security price performance. They subsequently proved that market model is as powerful as other return-generating models in detecting the significant wealth effect of specific events (Brown and Warner 1985). Evidence further revealed the existence of biases when using other types of return generating models that generate the size and book-to-market adjusted cumulative abnormal returns (Bao and Edmans 2011). Moreover, there are other studies that continue to confirm the supremacy of market model in producing robust inferences for event studies (MacKinlay 1997; Campbell et al. 2010; Cable and Holland 1999; Prabhala 1997).

Market model is a single-index model which posits a linear relation between the stock returns and market portfolio returns over an examined time period. The model predicts a stable relation between the market return and any security return. To prevent the parameters estimated from the market model being influenced by the event of

[87] Their inferences are based on studies covering 54 non-US countries, including Malaysia.

interest, parameters of the market model are estimated during the pre-announcement period, which is also generally known as the *estimation period* (to be discussed in Section 5.3.1.2). The market model that is used to derive the expected returns, $ER_{i,t}$, can be written as:

$$ER_{i,t} = \hat{\alpha}_i + \hat{\beta}_i R_{m,t} + \varepsilon_{i,t}$$ **Equation 5.3**

$ER_{i,t}$ is the expected return of event firm *i* on day . $R_{m,t}$ is the return of the market index on day t. $\hat{\alpha}_i$ and $\hat{\beta}_i$ are the estimated parameters from the OLS regression during the estimation period.[88] ε_{it} is the error term for event firm *i* on day *t*. $\hat{\beta}_i R_{m,t}$ is the portion of event firm *i* return that is due to market-wide movements. The market returns are derived from the returns of KLCI composite index.[89] The error term ε_{it} is part of the return that cannot be explained by market movements and captures the effect of firm-specific information.

5.3.1.2 Estimation Period

Estimation period is necessary to generate estimated parameters from the return generating model – market model. Kothari and Warner (2004) indicated that the length of the estimation period is arbitrary. It has to be long enough to contain a reasonable number of observations to estimate the parameters of the model and short enough to

[88] Brown and Warner's (1985) studies do not find that the application of Dimson or the Scholes and Williams procedures to estimate $\hat{\beta}_i$ improve the power of tests for abnormal returns in event studies. The application of these procedures has been explained in detail by Peterson (1989) Both of these more complicated alternative procedures do not provide a definite benefit over the OLS procedures for parameters estimation of the market model (Peterson 1989).

[89] Studies proved that the generation of abnormal returns using simple market model and national market indexes provides valid inferences in event studies (Campbell et al. 2010). The inferences are based on studies covering 54 countries, including Malaysia.

avoid an eventual instability of the parameters. There has been different durations of estimation period employed in past event studies, which can range from 120 days to 250 days (Dyckman et al. 1984; MacKinlay 1997; Corrado and Truong 2008).

Given the concerns about the stationarity of the market model parameters, the use of one year of observations (a pre-announcement period of 250 trading days) is recommended as estimation period to estimate parameters of the market model (Binder 1998; Brown and Warner 1985). This research study employs 250 days of estimation period for the parameter estimation.

Another aspect needed to be considered is to determine the exact day that the estimation period should end prior to the day of announcement. This study follows previous event studies (Lease et al. 1991; Wooldridge and Snow 1990; Masulis et al. 2007) and ends the estimation period 10 days prior to the day of announcement, which are two trading weeks away from the day of the announcement.[90]

5.3.1.3 Cumulative Abnormal Returns (CAR) and Event Window

The abnormal returns ($AR_{i,t}$), as specified by **equation 5.1**, are then aggregated to a portfolio in order to draw overall inferences for the event of interest. By taking an equally weighted portfolio, the aggregation is through time and across securities. First, individual event firm abnormal returns can be aggregated across securities, as follows:

[90] Some studies end the estimation periods on Day – 60 or even closer days prior to the day of the announcement. (Campa and Hernando 2004; Martynova and Renneboog 2008; Tuch and O'Sullivan 2007; Alexandridis et al. 2010; Netter et al. 2011), which can be as close as Day -6 (Moeller et al. 2004)

$$\overline{AR_{\iota,t}} = \frac{1}{N}\left(\sum_{i=n}^{N} AR_{i,t}\right)$$ **Equation 5.4**

, where N is the number of firm events, $AR_{i,t}$ is the abnormal return for security *i* at time *t*.

The average abnormal returns are then aggregated over the event window. The aggregation is along two dimensions, across securities and through time.

$$\overline{CAR_t}(T_1, T_2) = \sum_{t=T1}^{T2} \overline{AR}_{i,t}$$ **Equation 5.5**

, where $\overline{CAR_t}(T_1, T_2)$ is the average cumulated abnormal return across the observed event window and security events. The T_1, T_2 as specified in **equation 5.5** denote the number of days which $\overline{AR_{\iota,t}}$ (as specified in **equation 5.4**) is accumulated over the *event window*.

Empirical evidence demonstrated that a short event window usually captures the significant effect of an event (Ryngaert and Netter 1990). A long window would capture events that would bias the interpretations on the wealth effect of the examined events while a short event window would not account for information leakage or transitory delays before official announcements (McWilliams and Siegel 1997; Groening and Kanuri 2013). Past corporate acquisition studies revealed one-day (Day 0), two-day (Day 0 to Day +1) or three-day (Day –1 to Day +1) of an *event window* (T_1, T_2) are common in event studies (Campa and Hernando 2004; Martynova and Renneboog

2008; Tuch and O'Sullivan 2007; Alexandridis et al. 2010; Netter et al. 2011; Amira et al. 2013; Pevzner et al. 2013). Existing corporate acquisition studies for family firms commonly employ Day -1 to Day 1 to observe the cumulated valuation effect of the announcements on the market value of family firms (Holmen and Knopf 2004; Cosh et al. 2006; Ben-Amar and André 2006; Bhaumik and Selarka 2012).[91]

Based on existing event studies, this study looks at an event window of Day -1 to Day +1 to capture the wealth effect of corporate acquisition announcements.[92],[93],[94] The CAR are cumulated over Day -1 to Day +1 in this study to evaluate investors' reaction (wealth effect) to corporate acquisition announcements of Malaysian family-controlled firms. Figure 5.1 displays graphical presentation of the event study timeline for both the estimation period and event window used in this study.

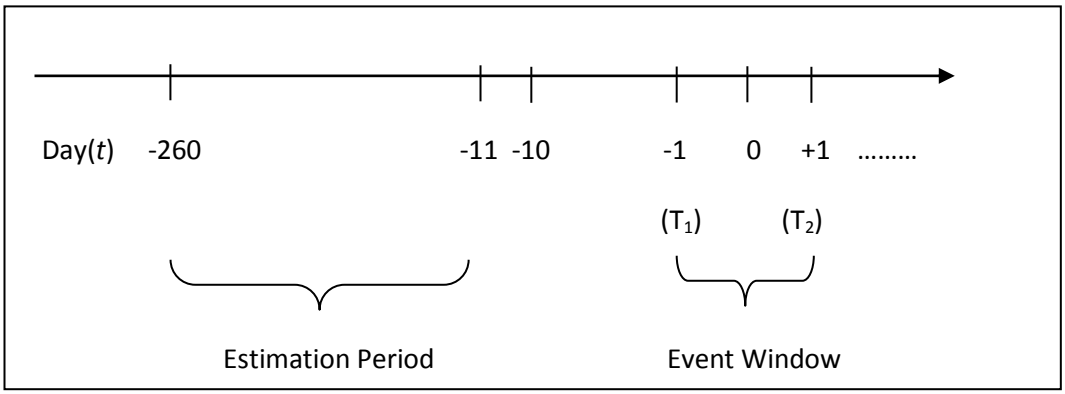


Figure 5. 1: Timeline for Event Study

[91] Some authors used event window of Day –5 to Day +5. (Bae et al. 2002; Holmen and Knopf 2004; Banerjee et al. 2014) or Day-2 to Day +2 (Gonenc et al. 2013; Banerjee et al. 2014) No rationale is given for the choices.
[92] (Moeller et al. 2004; Amira et al. 2013; Pevzner et al. 2013; Gonenc et al. 2013)
[93] It has been highlighted that longer event window severely reduces the power of the test statistic, which leads to misleading inferences about the significance of the valuation effect of the announcements (Brown and Warner 1985). Brown and Warner (1985) employed event window of Day -5 to Day +5 for their simulation studies. Their studies showed the decrease of power of test on the valuation effect of events when the event window exceeds the intervals of Day -5 to Day+5.
[94] For sensitivity of the analysis, alternate event windows are also examined. These are further explained in detail in Section 5.5.3 of this chapter.

5.3.2 Independent Variables of Interest

Based on the conceptual schema as depicted in *Figure 4.1 in Chapter 4 – Hypothesis Development,* the following subsections discuss the sources and measures for the independent variables that are employed in this study. All relevant information for the measurements of the independent variables is retrieved from annual reports of the acquiring firms as at the fiscal year-end that comes immediately before the release of corporate acquisition announcements by Malaysian family-controlled firms.

5.3.2.1 Family Ownership

Within the context of Malaysian family-controlled firms, information of family ownership stakes are retrieved from *Shareholding Analysis* of the annual report. *Shareholding Analysis* discloses both the direct and indirect shareholdings held by substantial shareholders[95] of the company. It also discloses the total shareholdings held by related family members of these substantial shareholders.

When determining family ownership in a publicly listed family-controlled firm, past studies (La Porta et al. 1999; Claessens et al. 2000; Faccio and Lang 2002; Lins 2003; Faccio and Stolin 2006) considered both direct and indirect shareholdings held by all related family members of the controlling family. Consistent with the approach used in past studies, family ownership in this study is measured by the total of both direct and indirect shareholdings held by related family members in Malaysian family-controlled

[95] The definition of *substantial shareholder* is given in Section 69D of Companies Act 1965: a *substantial shareholder* can be an individual or a corporation (whether listed or unlisted) who holds no less than an aggregated 5% of total voting rights in a company.

firms. In addition, based on existing studies (McConnell and Servaes 1990; Morck et al. 1988; Anderson and Reeb 2003b; Ben-Amar and André 2006), family ownership is also squared to examine possible nonlinear relation with firm value for multivariate analysis.

The variable of family ownership that is used in both univariate and multivariate analyses is represented by O*wn*. The variable *own* is measured in the form of percentage. The squared of family ownership is represented by Own^2.

5.3.2.2 Family Management

Existing studies have empirically shown that active family management (when assuming the role of a CEO) by the family is an important feature in creating value for family-controlled firms (Anderson and Reeb 2003b; Villalonga and Amit 2006; Isakov and Weisskopf 2014). The variable of family management that is used in both univariate and multivariate analyses is represented by *FamilyCEO* to examine its relation with CAR. The dummy variable *FamilyCEO* equals to one when the family member takes the role of a CEO, zero otherwise. Information regarding this specific family firm feature is retrieved from the *Profile of Directors* in the annual reports of Malaysian family-controlled firms.

5.3.2.3 Founder-CEO and Descendent-CEO

Empirical studies reveal significant relation between active family management (by taking the position of a CEO either by founders or by the heirs) in adding value to family

firms. Studies showed significant positive relation between founder-CEO and family firm value (Anderson and Reeb 2003b). Contradictorily, studies also documented significant negative relation between descendant-CEO and family firm value (Villalonga and Amit 2006) or significant positive relation between descendant-CEO and family firm value (Sraer and Thesmar 2007). Hence, dummy variables are created to represent these specific family firm features.

In this study, information regarding the founder-CEO and descendant-CEO is retrieved from the *Profile of Directors* in the annual reports of Malaysian family-controlled firms. To examine separately the effect of founder-CEO and descendent-CEO on firm value, two dummy variables are generated and used in both univariate and multivariate analyses. To measure the presence of a founder-CEO, it is represented by the dummy variable *F_CEO,* which equals to one when founder is the CEO, zero otherwise. To measure the presence of a descendant-CEO, it is represented by the dummy variable *H_CEO,* which equals to one when Heir is the CEO, zero otherwise.

5.3.2.4 Family Representatives on the Board

To determine if the presence of family on the board has effect on the wealth creation of corporate acquisition decisions of Malaysian family-controlled firms, the relevant information is retrieved from the *Profile of Directors* in the annual reports. A dummy variable is used to measure the relation between family representatives on the board and announcement-period CAR (Anderson and Reeb 2004). The dummy variable *Fam_Ind* equals to one when the ratio of total percentage of family representatives on the board over the total percentage of independent directors on the board is more than one. The information regarding the number of independent directors on the board is retrieved from either the *Profile of Directors* or the *Statement of Corporate*

Governance in the annual reports. The measurement used is percentage of total independent directors on the board.

5.3.2.5 Dual Role of Family CEO-Chairman

One of the widely accepted corporate governance mechanisms is the implementation of unitary leadership on the board, where the duty of the chairman is separated from the duty of the CEO. Agency theory asserts that splitting the positions of CEO and chairman between two people improves firm performance as the board of directors can better monitor the performance of the CEO (Harris and Helfat 1998; Worrell et al. 1997; Finkelstein and D'Aveni 1994; Brickley et al. 1997; Fama and Jensen 1983b). However, due to the specific feature of family firms, the corporate governance function of a unitary leadership on the family firm board when upheld becomes futile. Specifically, the purpose of having an independent chairman and an independent CEO on the board is lost when these two positions are held by two individuals who are family related. Such traits are possible among family-controlled firms and are common among Malaysian family-controlled firms. Yet, this specific family firm feature has never been raised as a concern and has never been examined in the stream of family firm literature. To the best of our knowledge, this is the first empirical study that examines specific family firm feature relation with family firm value, within the context of corporate acquisition studies.

The term *family-related CEO and chairman* is used in this study to refer to this feature of family firms. To examine the relation between *family-related CEO and chairman* and CAR, this feature is measured through a dummy variable – *F_Dual, which* equals to one when the roles of CEO and chairman are held by two different individuals, who are family related. Information regarding this specific family firm feature on the dual role

of family CEO-Chairman is retrieved from the *Profile of Directors* in the annual reports of Malaysian family-controlled firms.

5.3.2.6 Related-Party Acquisition

To determine if the corporate acquisition performed by Malaysian family-controlled firms involve related parties who are family related, relevant information can be retrieved from the announcement. Information content of the announcement can be retrieved from the official website *Bursa Malaysia* – Announcement section. Related party corporate acquisitions are allowed within the context of Malaysia. Pursuant to Chapter 10 Main Market Listing Requirements of Bursa, all listing companies need to disclose corporate acquisition activities as a *related party transaction* to Bursa when a transaction meets the definition of a related party transaction as defined in Chapter 10.02. Pursuant to Chapter 10.02, *related party transaction* means a transaction entered into by the company or subsidiaries which involve the interest of a related party. *Related party* means a director, major shareholder or person connected with such director or major shareholder, pursuant to Chapter 1 Main Market Listing Requirements of Bursa. A dummy variable, represented by *rpa*, equals to one when the acquisition is a related-party corporate acquisition. For the purpose of examining related-party corporate acquisitions within the context of Malaysian family firm studies, the corporate acquisition activities involve related party when:-

iii. The director or the owner of the target firm is family related to the director or the owner of the acquirer.

iv. The director or the owner of the target firm is also the director or the owner of the acquirer.

5.3.3 Control Variables

Existing family firm studies and corporate acquisition literature identify a number of significant factors that affect acquirer announcement returns. Using these studies as a guide, these factors are included in the multivariate regression analysis as control variables. Relevant financial information for the measurement of these control variables is retrieved from the database – *Capital IQ*, as at the fiscal year-end that comes immediately before release of the corporate acquisition announcements. Information on acquisition-related traits is retrieved from the corporate acquisition announcements that are archived at the *Announcement Section* of Bursa Malaysia. The control variables that are used in this study are:-

i. Period of global financial crisis

Based on a recent corporate acquisition study (Banerjee et al. 2014), to control the period affected by the global financial crisis, the period of 2008 to 2011 is considered as a controlling factor. This is measured by using a dummy variable that equals to 1 when the event year of the period falls between the years 2008 and 2011. This variable is represented by *Yr08_11*.

ii. Free cash flow

Existing studies demonstrated significant relation between free cash flow and CAR. By referring to the literature (Lang et al. 1991), the same measurement for free cash flow is used. The variable is represented by *FCF*. The free cash flow is calculated as follows:

= (Operating Income + Depreciation – Interest Expenses – Taxes – Preferred dividend – Common dividend) / Total Assets

iii. Firm size

Moeller et al. (2004) indicate robust evidence of a strong relation between acquirer firm size and announcement-period abnormal returns of the acquirers. To control for firm size, firm size is measured by the log of market capitalisation (or market value of equity) (Vermaelen and Xu 2014). This variable is represented by *LN_MVE*.

iv. Firm age

The firm age is measured as the number of years since the year of firm's incorporation (Anderson and Reeb 2003b; Villalonga and Amit 2006). This information is retrieved from the annual report and the official company website where the information and biography of the company are displayed. This variable is represented by *FirmAge*.

v. Proportion of Independent Directors on the Board

Empirical studies showed the significant positive relation between independent directors on the board and the announcement-period abnormal returns of the acquirers (Anderson and Reeb 2004). To control this effect, as done in previous studies, the variable *Ind_Director* is generated and denotes the total percentage of independent directors on the board. Information regarding the number of independent directors on the board is retrieved from either the *Profile of Directors* or the *Statement of Corporate Governance* in the annual report.

vi. Deal size

Recent findings reveal a significant negative relation between deal size and the announcement period abnormal returns of the acquirers (Alexandridis et al. 2013). To control this effect, following the work of Alexandridis et al. (2013), the deal size is measured as the log of the transaction value. The information is retrievable from the announcement. This variable is represented by *LN_RM*.

vii. Pre-announcement stock price run-up of acquirer

Previous studies documented that prior firm performance of the acquirer exhibits significant relation with announcement period abnormal returns (Masulis et al. 2007; Bae et al. 2002). Based on previous studies, the same measure is employed in this study. Acquirer's pre-announcement stock price run-up is measured by cumulative abnormal return over the 200-day window (event day -210 to day -11) and is estimated using market model as specified in **equation 5.3**. This variable is represented by *Pre_CAR*.

viii. Related industry acquisition

An existing study reports higher acquirer abnormal return for within-industry acquisitions (non-diversifying) compared with diversifying acquisitions (Maquieira et al. 1998). To control for whether the acquisition is within the same industry, a dummy variable is used to identify if the target and the acquirer are in the same industry. Related information is retrieved from the announcement on Bursa. This variable is represented by *non_related*.

ix. Other deal-related traits that are represented by a dummy value

There are several research findings on the significant relation between a few deal-related traits and the stock market's response to corporate acquisition announcements. Following the literature (which has been discussed in Chapter 3), the effects of these traits are controlled using dummy variables, as discussed below:-

a. Acquisition payment method (cash, equity or mixed payment method)
   A dummy variable is created, which equals to one if acquisition is financed by equity payment, zero otherwise. This is represented by the variable *Equity*.
b. Target type (privately-held target or public target)
   A dummy variable is created, which equals to one if publicly held target is acquired, zero otherwise. This is represented by the variable *Public*.
c. Acquisition of domestic target or cross-border target
   A dummy variable is created, which equals to one if non-domestic target is acquired, zero otherwise. This is represented by the variable *Crossborder*.

A summary of all the variables mentioned and their measurements are presented in **Table 5.1** as follows.

Table 5. 1 Summary Table Describing the Measurements for the Dependent, Independent and Control Variables

Dependent Variable	
CAR_{i}	: Cumulative abnormal returns over the event window
Independent Variables	
Own	: Total family equity ownership as measured by total percentage of equity ownership in the company
Own^2	: Squared Own
$FamilyCEO$	: Dummy variable that equals to one when family member of the controlling family is the CEO, zero otherwise
F_CEO	: Dummy variable that equals to one when founder is the CEO, zero otherwise
H_CEO	: Dummy variable that equals to one when the heir is the CEO, zero otherwise
Fam_Ind	: Dummy variable that equals to one when the ratio of total number of family members on the board over total number of independent directors on the board is more than one, zero otherwise
F_Dual	: Dummy variable that equals to one when two related family members hold the positions of CEO and chairman respectively, zero otherwise
Rpa	: Dummy variable that equals to one for related party acquisition, zero otherwise
Control Variables	
$Firmyear$	: Firm age of the company
$Ind\_Director$	: Total percentage of independent directors on the board
$DualCEO$	: Dummy variable that equals to one when the position of CEO and chairman are both held by the same individual, zero otherwise
Pre_CAR	: Acquirer's pre-announcement stock price run-up is measured by cumulative abnormal return over the 200-day window (event day -210 to day -11) and is estimated using market model
$non\_related$	: Dummy variable that equals to one when target is not within the same industry as the industry of the acquirer
FCF	: Free cash flow ratio that is denoted by (Operating Income + Depreciation – Interest expense – Taxes – Preferred dividend – Common dividend) / Total Assets
LN_MVE	: Firm size that is denoted by log of market capitalisation
LN_RM	: The transaction size that is denoted by the log of transaction dollar value of the acquisitions in *Malaysia Ringgit* currency
$Crossborder$	: Dummy variable that equals to one for acquisition of non-domestic target, zero otherwise
$Public$	: Dummy variable that equals to one for acquisition of private target, zero otherwise
$Equity$	: Dummy variable that equals to one for equity-financed acquisition, zero otherwise
$Yr08\_11$	: Dummy variable that equals to one when the year of the event is during the period of 2008-2011, zero otherwise

5.4 Data Description and Summary Statistics

This section provides discussion on the characteristics of the data. Section 5.4.1 discusses the distribution of the sample corporate acquisition announcements across the years and across the industry. Section 5.4.2 discusses the summary statistics of the variables used in this study.

5.4.1 Corporate Acquisition Announcements

TABLE 5.2
Distribution of Corporate Acquisition Activity by Announcement Year

The sample comprises 267 corporate acquisition announcements categorised by announcement year released by 129 Malaysian family-controlled firms between 2002 and 2011. Column 2 and Column 3 report numbers and percentages of the acquisition activities.

Year	N	%
2002	4	1.50
2003	10	3.75
2004	15	5.62
2005	27	10.11
2006	42	15.73
2007	43	16.10
2008	32	11.99
2009	32	11.99
2010	26	9.74
2011	36	13.48
Total	267	100

There are in total 267 observations examined, which represent 267 corporate acquisition announcements announced by 129 Malaysian family-controlled firms in this study, across a 10-year period of studies, from the year 2002 to year 2011.[96] The following subsections provide further discussion on the distribution of sample corporate acquisition announcements across different aspects and a brief descriptive statistics on the examined variables. A list of the sample corporate acquisition announcements performed by Malaysian family-controlled firms is presented in **Appendix A3**. **Table 5.2** reveals that the distribution of corporate acquisition announcements of Malaysian family-controlled firms across the examined sample period does not deviate far from the mean.

Studies (Metwalli and Tang 2009, 2002) reported that over the years 1990–2007, Malaysia accounted for the highest percentage of the total deals and transaction value in the Southeast Asian region among other examined Southeast Asian countries. For the case of corporate acquisition activities of Malaysian family-controlled firms, **Table 5.2** presents the distribution of sample by announcement year – the year when the corporate acquisition announcements were released to the public by Malaysian family controlled firms (the acquirer). The frequencies of the corporate acquisition activities across 2002 to 2011 demonstrate an upward trend. Few corporate acquisition investment activities were undertaken by family-controlled acquirers in the year 2002, with the lowest total number of acquisitions among other years. The low number of corporate acquisition investment activities could be due to the economic recovery stage experienced by the country after the large impact of the 1997 Economic Crisis and the year 2000 dot.com bubble. Nevertheless, Malaysia's economy returned to steady growth beginning in the year 2002 (Goh and Lim 2010; Ministry of Finance Malaysia 2002). The low number of corporate acquisition activities is also in line with Metwalli and Tang's (2009) findings of a sharp decline in corporate acquisition activities

[96] Sample size is not an issue. A recent event study employs 92 sample announcements (Change, 2014).

that were not exclusive to Malaysia, but over the whole Southeast Asian region[97] in the year 2002.

Based on **Table 5.2**, it is observed that there is an increasing number of corporate acquisition activities of Malaysian family-controlled firms from 2002 until the year 2005. This observation is consistent with the result of Metwalli and Tang (2009) and Rahim and Pok (2012), who find a significant expansion of corporate acquisition activities in the Southeast Asian region and Malaysia from the years 2002 to 2005. The increase in the number of corporate acquisition activities during these periods are due to the strong economic growth in Malaysia (Rahim and Pok 2012).

It is interesting to observe that the general downward trend of corporate acquisition activities in Malaysia over the years 2006 and 2007 do not significantly affect the corporate strategies of Malaysian family-controlled firms. **Table 5.2** reveals an increasing trend of corporate acquisition activities of Malaysian family-controlled firms continues in the year 2006 until 2007. This pattern is inconsistent with the general trend of corporate acquisition activities in Malaysia for the years 2006 and 2007. In fact, there was a drop in corporate acquisition activities in the year 2006 until the year 2007 in Malaysia (PricewaterhouseCoopers 2007; Rahim and Pok 2012). The decreasing trends of corporate acquisition activities in Malaysia persisted in the year 2008 due to the global financial crisis (Rahim and Pok 2012).

The increasing trend of Malaysian family-controlled firms' corporate acquisition activities from 2006 to 2007 shown in **Table 5.2** provides valuable insight. It is clear that Malaysian family-controlled firms were able to maintain their strong contributing role to the Malaysian economy (Ngui 2002). Malaysian family-controlled firms demonstrate

[97] The Southeast Asian countries examined include the ASEAN big five countries (Indonesia, Malaysia, Philippines, Singapore and Thailand) and ASEAN small five countries (Brunei, Vietnam, Laos, Myanmar and Cambodia). Data do not exhibit any corporate acquisition activities in Cambodia.

their constant involvement in investment activities even during times of economic downturn. Similar to family firms worldwide, Malaysian family-controlled firms remain strong and are steady performers even in times of economic crisis. This evidence supports a recent survey conducted by Ernst & Young on 33 countries, highlighting that family firms worldwide are relatively immune to economic turbulences with resilient business and steady business growth (Ernst & Young 2012). Findings of existing family firm performance studies also reveal empirical evidence that family firms outperform non-family firms even during the time of economic recessions as a result of the unique behaviour of family firms (Kashmiri and Mahajan 2014). The authors highlight that family firms are an effective organisation form. This finding is also consistent with studies that infer family firms are strong performers in comparison with other non-family firms (Anderson and Reeb 2003b; Mehrotra et al. 2013).

TABLE 5.3
Distribution of Corporate Acquisition Activity Across Industries

The sample comprises 267 corporate acquisition announcements of 129 Malaysian family-controlled firms across industries between 2002 and 2011. The classification of bidding firm industries follows those identified from Bursa. Column 2 and Column 3 report numbers and percentages of the acquisition activities.

Industry	**N**	**%**
Industrial Product	88	32.96
Plantation	55	20.60
Trading/Services	49	18.35
Consumer Product	47	17.60
Properties	19	7.12
Construction	5	1.87
Technology	4	1.50
Total	267	100

The industry distribution of corporate acquisition announcements is reported in **Table 5.3**. The identification of the industries follows the classification of Bursa – the Malaysia Stock Exchange. As reported in **Table 5.3**, corporate acquisition announcements occur more often for the industry of industrial product over the sample period. However, there is no indication of significant industry concentration in any industry group. The percentage of sample corporate acquisition announcements shows that the sample announcements are generally distributed across the industries evenly, except for those of the construction and technology industry, which make up less than 2% of the total sample respectively.

5.4.2 Descriptive Statistics

Table 5.4
Descriptive Statistics

This table reports descriptive statistics for the variables examined in this study. *N* represents the total number of observations for each variable. *Mean* represents the mean of the variables. *SD* represents the standard deviation, *Median* represents the median, *Max* and *Min* represents the maximum and minimum of the variable. *Skewness* and *Kurtosis* represent the skewness and kurtosis of the variables' distribution.

Variable	N	Mean	SD	Median	Max	Min	Skewness	Kurtosis
Own	267	46.74	13.38	46.62	84.5	20	0.25	2.52
F_CEO	267	0.47	0.50	0	1	0	0.13	1.02
H_CEO	267	0.37	0.48	0	1	0	0.55	1.30
FamilyCEO	267	0.84	0.37	1	1	0	-1.84	4.40
Fam_Ind	267	0.30	0.46	0	1	0	0.86	1.73
DualCEO	267	0.26	0.44	0	1	0	1.10	2.22
F_Dual	267	0.27	0.44	0	1	0	1.06	2.12
Rpa	267	0.28	0.45	0	1	0	0.98	1.95
FirmYear	267	25.91	17.90	25	105	3	1.43	6.20
Ind_Director	267	41.55	10.57	40	83.33	20	1.03	4.03
Pre_CAR	267	1.45	15.67	1.97	100.76	-74.38	0.44	11.88
non_related	267	0.12	0.32	0	1	0	2.40	6.74
FCF	267	0.07	0.04	0.06	0.24	0	0.58	3.54
LN_MVE	267	19.88	1.71	19.62	24.52	16.3	0.57	2.82
LN_RM	267	16.45	1.74	16.25	21.54	13.01	0.47	2.86
Crossborder	267	0.31	0.47	0	1	0	0.80	1.64
Public	267	0.02	0.14	0	1	0	7.10	51.42
Equity	267	0.03	0.17	0	1	0	5.51	31.41
Yr08_11	267	0.47	0.50	0	1	0	0.11	1.01

In **Table 5.4**, the variable *Own* (total ownership of the controlling family in percentage) reveals the high concentration of family ownership in Malaysian family-controlled firms. The maximum family ownership can reach as high as more than 80%. The minimum percentage of family ownership examined in this study is 20% with a mean of close to 50%. The nature of highly concentrated family ownership in Malaysian family-controlled firms exhibited in the sample is in accordance with past findings (Claessens

et al. 2000; Carney and Child 2012). Taking a further look at family ownership exhibited in **Table 5.5** below, 61% of the sample corporate acquisition announcements involve acquisitions that are performed by Malaysian family-controlled firms held by the controlling family with more than 50% of total family ownership. This shows that regardless of the level of total family ownership, either more than the absolute 50% ownership or less, Malaysian family-controlled firms are involved in corporate acquisition activities.

Table 5.5
Frequency Distributions of Family Ownership

The sample distribution comprises 267 corporate acquisition activities of 129 Malaysian family-controlled firms across family ownership between 2002 and 2011. Column 2 and Column 3 report numbers and percentages of the acquisition activities, respectively.

Family Ownership in %	N	Percentage
Between 20% -29%	33	12.36
Between 30% -39%	55	20.6
Between 40% -49%	70	26.22
Between 50% -59%	61	22.85
Between 60% -69%	32	11.99
Between 70% -79%	15	5.62
More than 80%	1	0.37
Total	267	100

The variables *F_CEO* and *H_CEO* represent dummy variables that identify the position of CEO held by either the founder or the heir, respectively. **Table 5.4** reveals that Malaysian family-controlled firms that are managed by family members are active in corporate acquisition activities. Among 267 sample corporate acquisition announcements, 47% of acquisitions are performed by founder-managed Malaysian family-controlled firms. In this study, founder-managed Malaysian family-controlled firms refer to the situation when founder is actively involved in managing family-

controlled firms through the position of CEO. Another 37% of the acquisitions are performed by descendant-managed Malaysian family-controlled firms. The remaining 16% of the sample corporate acquisition announcements involve acquisitions performed by Malaysian family-controlled firms that are managed by a professional CEO, who is not family-related to the controlling family owners. The results reveal one of the specific characteristics common among Asian family firms, which is in line with the findings of past literature (Lins 2003). More specifically, family members are active in managing Malaysian family-controlled firms by holding active managerial position as the CEOs. This is again similar to the findings of Lins (2003) on the preference of controlling families in emerging countries filling up the role as active managers of the family-controlled firms.

The variable *Fam_Ind* denotes a dummy variable that equals to one when the proportion of total family members' representation on the board over total independent directors on the board is more than one. This dummy variable allows examination of the balancing monitoring power from the independent directors in relation to family members on the board (Anderson and Reeb 2004). Excessive numbers of family members on the board relative to independent directors increase the likelihood of the family expropriating the company's wealth. On the other hand, fewer family representatives relative to independent directors reduce family monitoring and board effectiveness. **Table 5.4** reveals that 30% of the sample acquisition announcements are performed by Malaysian family-controlled firms with family members on the board exceeding the independent directors on the board. This is in line with the findings of a previous study that family members participation on the boards are observable in Malaysian family-controlled firms (Ameer and Abdul Rahman 2009).

The variable *DualCEO* represents a dummy variable that equals to one when there is a dual role held by the same individual on the board, who is both the CEO and the

chairman on the board. The variable *F_Dual* represents a dummy variable that equals to one when the roles of CEO and chairman are held separately by two individuals, who are family related. In this case, the governance function of an independent chairman and independent CEO on the board may be impeded. **Table 5.4** reveals that 26% of the acquisitions are performed by Malaysian family-controlled firms with a board structure that does not comply with the recommendation of the voluntary Malaysian Code on Corporate Governance released in March 2000 – both the roles of CEO and chairman are held by the same individual. Another 27% of the acquisitions are performed by Malaysian family-controlled firms with a board structure that complies with the recommended good corporate governance practice of Bursa – the roles of CEO and chairman are held by two separate individuals, who are however, family-related. The remaining 47% of the acquisitions are performed by Malaysian family-controlled firms with a unitary board leadership structure, where the roles of CEO and chairman are held by two separate individuals, who are not family-related. Overall, 74% of sample acquisitions are performed by Malaysian family-controlled firms with a unitary leadership board structure that is in compliance with the recommended good practice of corporate governance by Bursa. This is again in line with findings of existing studies that examine Malaysian family-controlled firms (Amran and Ahmad 2009; Wan-Hussin 2009). Malaysian family-controlled firms favour the good practice of dual leadership structure where CEO and Chairman of the board are vested in two separate individuals. However, it is not mentioned in these past studies (Amran and Ahmad 2009; Wan-Hussin 2009) whether the two separate individuals are family-related or not family-related.

The variable *rpa* represents a dummy variable that equals to one when the announced corporate acquisition involved related parties, as explained in Section 5.3.2.6 in this chapter. **Table 5.4** shows that 28% of the sample corporate acquisition announcements involve related parties. The data reveal that Malaysian family-controlled firms are not so active in performing corporate acquisition activities involving related parties. The related parties, in simpler terms, refer to the situation when the acquisitions happen between the acquirers and the targets that are either owned or managed by related

family members. Related party acquisitions are allowed by Bursa, which must be disclosed to Bursa and the public in the announcements.

For control variables, in terms of the firm age (*FirmYear*) of Malaysian family-controlled firms since its incorporation, **Table 5.4** reveals the average age of the sample Malaysian family-controlled firms is 25 years, with the maximum age at 105 years and minimum age at 3 years. The distribution is a close-to-one skewness, implying that the sample firm age distribution does not deviate too far from the mean.

The variable *Ind_Director* is expressed in total percentage of independent directors on the board. **Table 5.4** shows that on average the independent directors' ratio on the board for the case of Malaysian family-controlled firms (the acquirers) is in compliance with the recommendation of the voluntary Malaysian Code on Corporate Governance, with an average of more than 1/3 of independent directors on the board. The minimum measure shows 20% of independent directors on the board. This implies that there are cases of Malaysian family-controlled firms not following the recommended good practice of corporate governance by Bursa, in terms of having at least 1/3 of independent directors on the corporate board. Overall, the distribution of independent directors in terms of total percentage on the board for the acquirers does not deviate too far from the mean, with skewness of close to 1. This shows that most of the Malaysian family-controlled firms – the acquirers, are complying with the recommended Malaysian Code on Corporate Governance, with an average of more than 40% independent directors on the board (with a median of 40% independent directors on the board as well). The data are also in line with the findings of a previous study (Wan-Hussin 2009) on Malaysian family-controlled firms, which also report an average of close to 40% independent directors on the Malaysian family-controlled firms' corporate board.

The remaining control variables, discussed as the following, reveal the preferences of the sample Malaysian family-controlled firms when undertaking corporate acquisition activities. The dummy variable *Crossborder* reveals that 30% of the sample corporate acquisitions are cross-border acquisitions, with the remaining 70% belonging to acquisitions of local targets. The dummy variable *Public* reveals that 2% of the sample corporate acquisitions belong to the acquisition of public targets, with the remaining 98% belonging to the acquisition of private targets. This shows that Malaysian family-controlled firms prefer the acquisition of private target to public target.

The dummy variable *Equity* reveals that 3% of the sample corporate acquisitions are equity-financed corporate acquisitions performed by Malaysian family-controlled firms. Further examination of the data reveals that more than 90% of the sample corporate acquisitions performed by Malaysian family-controlled firms are cash-financed acquisitions. Another 5% of sample corporate acquisitions are financed with other financing alternatives (mixed financing of using cash, equity and others). This shows that Malaysian family-controlled firms generally do not favour financing their investments using equity compared with other alternatives. The data support previous findings (Basu et al. 2009) on family-controlled firms' preference of using cash as a medium of financing corporate acquisitions. This is to avoid the dilution of family control in the family-controlled firms. The controlling family owners of Malaysian family-controlled firms exhibit similar behaviour to other family firms' owners outside of Malaysia, in terms of fear of dilution of control.

5.5 Methodology

5.5.1 Univariate Analysis

To examine empirically the wealth effect of corporate acquisition announcements – as measured by CAR as specified in equation 5.5, test statistic is required to test the null if CAR are significantly different from zero. Section 5.5.1.1 discusses the test statistic employed in this study.

Univariate analysis has been an integral part of past corporate acquisition studies (Bae et al. 2002; Masulis et al. 2007; Cai and Sevilir 2012). The purpose is to examine any significant factors that are correlated with the wealth effect of the examined announcements (CAR). The findings also provide further insights and empirical evidence of determinants that significantly affect investors' reaction to corporate acquisition announcements of Malaysian family-controlled firms. A multivariate setting is further employed to examine the robustness of the findings from univariate analysis (Cai and Sevilir 2012).

The CAR as specified in equation 5.5 are divided into different categories as discussed in the following subsection 5.5.1.2, with the aim of testing the hypotheses as specified in Chapter 4.

5.5.1.1 Empirical Test of the Significance of CAR

To make valid inferences on the wealth effect of corporate acquisition announcements for acquiring firm, empirical tests of the significance of CAR are needed. The tests on these cumulated event-period abnormal returns (*the wealth effect of the announcements*) for its significance are in itself another area of significant literature. Numerous testing procedures have been proposed and examined for their power in explaining the significance of stock market reaction to the announcements.

The use of parametric tests to test the significance of the event-period abnormal returns in event studies has been continuously challenged, which consequentially raises the subsequent proposals of non-parametric tests (Kolari and Pynnonen 2011; Cowan 1992; Corrado 1989). This is due to the fact that one of the underlying assumptions of existing parametric tests on the significance of these abnormal returns is commonly violated, in which the examined daily abnormal returns are generally assumed to be normally distributed. It has been a stylised fact that daily stock returns are scarcely normally distributed (Fama 1965; Officer 1972; Corrado and Truong 2008). Studies conducted by Campbell et al. (2010) for non-US samples across 54 countries (which include Malaysia) provide empirical evidence that the use of non-parametric tests for event studies is more powerful than parametric tests. [98]

Subsequent to the study by Corrado and Truong (2008), the most recent relevant literature expanded by Kolari and Pynnonen (2011) tested the power of all the frequently employed testing procedures in past event studies. Both parametric tests and non-parametric tests are examined. Both of these tests have been used in past event studies to examine the significance of the CAR. These CAR surrounding the event

[98] The two common parametric tests examined in Campbell et al.'s (2010) study are the Patell Z-statistic Patell 1976) and Boehmer standardised cross-sectional tests (Boehmer et al. 1991).

day reflect the significance and wealth effect of an event. A comparison among these test statistics[99] reveals that the Generalised Rank Test (GRANK) prevails over other testing procedures as it provides better explanatory power on the significance of an event. Based on the most recent findings of Kolari and Pynnonen (2011), this study employs the GRANK test in testing the significance of cumulated abnormal returns generated. The computation of the test statistic using GRANK procedure can be found in the study by Kolari and Pynnonen (2011). GRANK test is discussed in **Appendix A5**.

5.5.1.2 Empirical Test of CAR According to Traits

The classifications of mean CAR according to the characteristics as identified in i to vi below provide preliminary evidence on the relation between CAR and these key characteristics, which are mentioned in the hypotheses – Chapter 4.

i. Family ownership
ii. Acquiring firms that are managed by family CEO and professional CEO
iii. Acquiring firms that are managed by founder CEO and descendant CEO
iv. Acquiring firms with unitary board leadership structure (CEO ≠ chairman), duality board leadership structure (CEO = chairman, not related family members) and family-related CEO and chairman (CEO ≠ chairman, and both CEO and chairman are family-related members)
v. Related party corporate acquisitions and non-related party corporate acquisitions

[99] The examined test statistics include both parametric and non-parametric test statistics, which are Patell's standardised residual test. (Patell 1976), Boehmer, Musumeci and Poulsen's standardised cross-sectional test. (Boehmer et al. 1991), Corrado's rank test (Corrado 1989) and Corrado-Zivney's sign test (Corrado and Zivney 1992)

5.5.2 Multivariate Regression Analysis

The results from univariate analysis are suggestive of factors that determine the magnitude of CAR. A multivariate setting is employed to examine the influence of these suggestive factors while controlling for other factors that have been generally shown to affect the announcement returns in earlier corporate acquisition literature (Cai and Sevilir 2012). This allows examination of the robustness of the findings from univariate analysis. This pooled regression analysis is conducted through standard linear multivariate ordinary least squares regressions.

Past family firm studies and corporate acquisition literature have identified a number of significant factors which affect acquirer announcement returns (as discussed in Section 5.3.2). Following the literature, specific to family firm studies, these factors that have been empirically proven to exhibit significant relation with CAR are included in the multivariate regression analysis as control variables. The determinants and the controlling factors of the wealth effect of corporate acquisition announcements can be tested, by considering CAR as the following function:-

$$CAR = f\,(\text{independent variables, control variables}, \varepsilon)$$

Equation 5.6 below presents the baseline model specification applied for the multivariate analysis in this study. A summary of the measurements for the dependent variables, independent variables and control variables are displayed in **Table 5.1**. A summary of the measurements for the variables is shown in **Table 5.1**.

$$CAR_i = \alpha_i + \beta_{i1}\ Own_i + \beta_{i2}\ FamilyCEO_i + \beta_{i3}\ Fam\_Ind_i + \beta_{i4}\ F\_Dual_i + \beta_{i5}\ DualCEO_i + \beta_{i6}\ Ind\_Director_i + \beta_{i7}\ Rpa_i + \beta_{i8}\ Firmyear_i + \beta_{i9}\ Pre\_CAR_i + \beta_{i10}\ non\_related_i + \beta_{i11}\ FCF_i + \beta_{i12}\ LN\_MVE_i + \beta_{i13}\ LN\_RM_i + \beta_{i14}\ Crossborder_i + \beta_{i15}\ Public_i + \beta_{16}\ Equity_i + \beta_{17}\ Yr08\_11_i + \varepsilon_i$$

Equation 5.6

5.5.2.1 Hypothesis Testing

Table 5.6 Predicted Relation Direction between the Independent Variables and the Dependent Variable from the Regression Model

Independent Variables	Predicted Relation Direction	Hypothesis tested
Own	+	H1
Own & Own^2	+, -	H2
$FamilyCEO$	+	H3
F_CEO	+	H4
H_CEO	+	H5
Fam_Ind	-	H6
F_Dual	-	H7
Rpa	-	H8

Table 5.6 presents the hypothesised relation between the independent variables and the dependent variable (CAR) from the baseline regression model **equation 5.6**. The directions of the relation have implications for the testing of the hypotheses as discussed in *Chapter 4*. Discussions in this section are relevant to the testing of H1 to H9.

The relation between the variable Own and the dependent variable – CAR is used to examine *Hypothesis 1*. It is predicted that there is a significant positive linear relation between Own and CAR . To test *Hypothesis 2*, following the literature (Morck et al. 1988), Own is squared to examine a possible nonlinear relation between family ownership and CAR.

The variable $FamilyCEO$ represents a dummy variable that equals to one when the position of CEO is held by the controlling family (Isakov and Weisskopf 2014). This allows the examination of *Hypothesis 3* on the relation between active family management roles and firm value, as measured by CAR in this study. To further investigate the effect of generations on family firm value, the dummy variables F_CEO and H_CEO are used to examine *Hypothesis 4* and *Hypothesis 5*. Each represents a dummy variable that equals to one when the position of CEO is held by either the founder or the descendant respectively, zero otherwise. The existence of these variables allow observations if active family management either by the founder or the descendant exhibit significant relation with the announcement period CAR. Following existing studies (Miller et al. 2007; Sraer and Thesmar 2007), F_CEO and H_CEO are used to examine H4 and H5 if founder active management role and heir active management role reveal significant relation with CAR.

The inclusion of the variable Fam_Ind examines *Hypothesis 6* if representatives of family members on the board display significant relation with CAR. Following the literature (Anderson and Reeb 2004), the variable Fam_Ind is measured by a dummy variable that equals to one when the ratio of total percentage of family members on the board over total percentage of independent directors on the board is more than one. This allows examination of family members' influence over the performance of family firms relative to the number of independent directors on the board. It is predicted that there is a significant negative relation between Fam_Ind and $CARs$. The predicted significant negative relation demonstrates that excessive numbers of family representatives on the board relative to the number of independent directors (the monitor) increase the likelihood of expropriation by the controlling family (Anderson and Reeb 2004).

The variable F_Dual allows the testing of *Hypothesis 7* to determine whether two related family members who hold both the roles or chairman and CEO exhibit significant negative relation with CAR. The relation provides further insight into this specific trait existing among family firms. To meet the listing requirement, it is recommended that the roles of chairman and CEO are held by two separate individuals to encourage good corporate governance. It is generally accepted that separation of the CEO and chairman roles brings positive effects to firm value. However, it is worth noting that when two separate individuals holding both positions of CEO and chairman are family related, the positive effect may be compromised. Hitherto, the effect of F_Dual on family firm value has never been raised as a concern and has never been empirically examined. This study is the first that empirically examined the relation between F_Dual and family firm value within firm performance literature, family firm literature and corporate governance literature.

The variable Rpa examines *Hypothesis 8* if related party corporate acquisitions exhibit significant negative relation with CAR. Within the context of Malaysia, related party corporate acquisitions are allowed, in accordance with the Main Market Listing Requirements of Bursa. Since such transaction is permissible, controlling family owners have opportunities to extract private benefits at the expense of minority shareholders. Existing literature revealed mixing findings of family firms performing related party acquisitions that are either value decreasing or not value decreasing. The findings of this study sheds light on whether Malaysian family firms perform related party acquisitions that are value enhancing or value decreasing.

5.5.3 Robustness Analysis

The CAR that are used in both univariate and multivariate analyses are cumulated over event window Day (-1, +1) (as discussed in Section 5.3.1.3). It has been a common practice that when making inferences for event studies, the measure of the acquirers' abnormal announcement returns – CAR, are alternated to ensure the sensitivity and robustness of the results. Following existing studies, the CAR are cumulated over alternate event windows for Day (-2,+2) and Day (-3,3) [100] ; the measures of the CAR are again regenerated using market model. The results are also reported in both univariate and multivariate analyses.

Market-adjusted abnormal returns model is also used in the literature of corporate acquisitions when generating the CAR. This model circumvents a potential endogeneity problem when using the *market model* for the case when the sample includes firms that acquire multiple targets. The estimation period for parameters estimation of the *market model* may be contaminated by prior acquisitions. Hence, following recommendation from existing studies (Conn et al. 2005; Faccio et al. 2006; Fuller et al. 2002; Gonenc et al. 2013), this study uses market-adjusted model to re-estimate CAR for additional sensitivity tests. The generated CAR using market-adjusted model over the event windows for Day (-1, +1), Day (-2, +2) and Day (-3, +3) are again examined and reported in both univariate analysis and multivariate analysis.

Sensitivity of the results is again re-examined in this study by the command *rreg* using STATA for the base model **equation 5.6**. In particular, the base model **equation 5.6** is re-estimated using robust regressions technique, which is also known as iterative

[100] Past studies have employed various alternate CAR that are cumulated over different event window lengths. No rationale has been given on the chosen event window length. For sensitivity tests, Masulis et al. measure acquirer abnormal announcement returns over event windows of (-1,1), (-1,0), (0,1) and (-5,5) and Cai and Sevilir (2012) used event windows of (-1,1),),(-2,2) and (-3,3).

weighted least squares (Blanchard and Leigh 2013). The robust regression down-weights observations with larger absolute residuals using iterative weighted least squares. In addition, robust regression can help justify the use of ordinary least squares results (Verardi and Croux 2009). When robust regression results are similar to those for ordinary least squares, there is a reassurance that ordinary least squares are not unduly influenced by the outliers (Abell et al. 1999). These sensitivity analyses are again run over the event windows of Day (-1, +1), Day (-2, +2) and Day (-3, +3) in the multivariate analysis for the respective CAR that are generated through both market model and market-adjusted model.

Lastly, due to the nature of pooled dataset in this study, the residuals *may* be correlated across firms, time or industry. In resultant, the OLS standard errors can be over- or underestimated. Tests are performed for firm effects, time effect and industry effect to ensure that the interpretation and analyses of the results are not influenced by firm fixed effect, time effect or industry effect. The tests performed provide further justification whether adjustment are needed on the standard errors for possible dependence of the residuals (Peterson 2009). *Stata* is used to perform the tests for firm, time and industry effect using the command *test*.

5.6 Summary

This chapter explains the data sources, data characteristics and research design used in this study for corporate acquisition announcements, specifically for the case of Malaysian family-controlled firms. Descriptive statistics are also discussed to understand the characteristics of the data.

A summary of the measurements of the dependent variable, independent variables and control variables used for the research are presented in Table 5.1. This chapter also discusses in detail the procedures required in generating the dependent variable using *event study methodology* as discussed in Section 5.3.1.

The generated dependent variables (CAR) as specified in **equation 5.6** are discussed concerning their use in both univariate analysis and multivariate analysis. Both univariate analysis and multivariate analysis are necessary to draw empirical inferences from this study. The chapter ends with a discussion on the methodology for robustness tests and analyses.

CHAPTER 6 RESULTS AND ANALYSIS

6.1 Introduction

This chapter presents and analyses the results. Section 6.2 reports and analyses the average cumulative abnormal returns ($\overline{CAR}$) around the announcement period of corporate acquisition announcements for Malaysian family-controlled acquirers. The changes in announcement-period market value - $\overline{CAR}$ provide an understanding of investors' reactions to corporate acquisition announcements of Malaysian family-controlled firms.

Next, Section 6.3.1 reports and discusses the results of ordinary least squares (OLS) estimate of baseline regression (**Equation 5.6**). A more detailed discussion based on the baseline regression results in Section 6.3 is presented in Section 6.4 to Section 6.10. Robustness test and regression diagnostic test on the baseline regression model (**Equation 5.6**) are performed and reported in Section 6.3.2 and Section 6.3.3, respectively. These tests are performed to ensure the robustness of the inferences drawn from the reported results of the baseline regressions.

Detailed analyses and discussions are presented in Section 6.4 to Section 6.10 in relation to the examined hypotheses, based on the baseline results reported in Section 6.3. On a case by case basis, further univariate anlaysis and multivariate analysis are performed when needed to draw empirical inferences from the examined hypotheses.

It is important to note that univariate analyses are conducted to provide preliminary evidence of the possible correlation between variables of interest and dependent variable ($\overline{CAR}$).

As highlighted by Masulis et al. (2007), results of univariate analyses do not allow reliable inferences to be made since the correlations between the partitioned $\overline{CAR}$ and other possible determinants of $\overline{CAR}$ are not considered in univariate analyses. This has been one of the limitations of univariate analysis. The observed significance of announcement period $\overline{CAR}$ of each subsample could be an artefact of the subsamples having correlations with other unobservable factors and firm characteristics, such as firm size, payment methods and target type (Masulis et al. 2007; Bauguess and Stegemoller 2008). Results of univariate analysis only allow the researcher to have preliminary observations of the relation between the examined family features and the $\overline{CAR}$ (Masulis et al. 2007; Bauguess and Stegemoller 2008). Care is needed when drawing conclusions at this stage as there are likely to be other uncontrolled factors exhibiting significant relation with $\overline{CAR}$.

Hence, the influences of other possible determinants of $\overline{CAR}$ need to be controlled before any empirical inferences are drawn from the results of univariate analyses. This can be achieved through multivariate analyses, where under a controlled multivariate setting, inferences can be made, as presented in the following section, *Section 6.3 Multivariate Analysis*.

Lastly, due to the nature of the pooled dataset, Section 6.11 presents further robustness analysis of the baseline regression model to control for the fixed effects of firms, years and industries (see Peterson, 2009 for details). Discussions are provided to infer whether the baseline regression model is influenced by any firms, years and

industry effect. This chapter ends with Section 6.12, which summarises the contents of this chapter.

6.2 Announcement Returns to Malaysian Family-Controlled Acquirers

Table 6.1
Announcement Period Mean Cumulative Abnormal Returns for Malaysian Family-Controlled Firms

The sample comprises mean cumulative abnormal returns ($\overline{CAR}$) from a sample of 267 corporate acquisition announcements of 129 Malaysian family-controlled firms. The 267 corporate acquisition announcements are categorised by announcements with acquirers under the management of family CEO and professional CEO, across the sample period of 2002 to 2011. The average $\overline{CAR}$ of each categorised corporate acquisition announcement is expressed in percentage of returns. *N* and *%* of Column 1 report the frequencies and percentage of the categorised sample corporate acquisition announcements, respectively. Columns 2, 3 and 4 display the average $\overline{CAR}$ estimated using market model. Columns 5, 6 and 7 present the average $\overline{CAR}$ estimated from market adjusted model. The $\overline{CAR}$ is reported over the three-day event window (-1, +1), the five-day event window (-2, +2) and the seven-day event window (-3, +3). The statistical test employs Kolari and Pynnonen's (2011) generalised rank test (GRANK), as shown in parentheses, to examine if $\overline{CAR}$ value is significantly different from zero. The numbers in parentheses denote the standard error. *,**, and *** stand for statistical significance of GRANK at the 10%, 5%, and 1% levels, respectively.

	N (%)	Market Model CAR			Market Adjusted Model CAR		
		(-1,+1)	(-2,+2)	(-3,+3)	(-1,+1)	(-2,+2)	(-3,+3)
$\overline{CAR}$ (Grank)	267 (100%)	0.4198** (2.0447)	0.5974*** (2.6828)	0.7153*** (3.1226)	0.6002** (2.3610)	0.9400*** (3.3588)	1.1969*** (3.5199)

In **Table 6.1**, the cumulative abnormal returns ($\overline{CAR}$) experienced by Malaysian family-controlled acquirers are reported over various event windows. For the purpose of examining the sensitivity of the results, the $\overline{CAR}$ is reported over the three-day event window (-1,+1), the five-day event window (-2, +2) and the seven-day event window (-3,+3) respectively, where 0 denotes Day 0 – the announcement day. In addition, for the purpose of examining the sensitivity of the results to $\overline{CAR}$, $\overline{CAR}$ is measured by two models and is reported for the aforementioned event windows (As discussed in Chapter 5, $\overline{CAR}$ is estimated using both market model and market adjusted model, respectively). **Table 6.1** provides empirical evidence on the wealth effect of corporate acquisition announcements experienced by Malaysian family-controlled acquirers.

The results in **Table 6.1** report positive $\overline{\mathrm{CAR}}$ at 1% significance level across almost all the event windows for both market model $\overline{\mathrm{CAR}}$ and market adjusted model $\overline{\mathrm{CAR}}$. For market model $\overline{\mathrm{CAR}}(-1,+1)$, Malaysian family-controlled firms experience 0.42% $\overline{\mathrm{CAR}}$ at 5% significance level. Market adjusted model $\overline{\mathrm{CAR}}(-1,+1)$ also reports 0.6% $\overline{\mathrm{CAR}}$ at 5% significance level for Malaysian family-controlled acquirers. The inferences drawn from the wealth effect of corporate acquisition announcements experienced by Malaysian family-controlled firms remain unchanged over other event windows across different measures of $\overline{\mathrm{CAR}}$.

As shown in **Table 6.1**, Malaysian family-controlled acquirers experience significant positive announcement-period value gains for all the examined event windows and also for both measures of $\overline{CAR}$. This demonstrates that Malaysian family-controlled acquirers, on average, perform value-creating corporate acquisitions. The results also reveal that investors favour corporate acquisitions attempted by Malaysia family-controlled firms. Hence, this evidence reveals that Malaysian family-controlled firms, on average, do not perform corporate acquisitions that are value-destroying.

The findings in **Table 6.1** are consistent with those reported in other family firm studies. Existing family firms studies have empirically showed positive corporate acquisition announcement wealth effect experienced by family-controlled acquirers from Sweden (Holmen and Knopf 2004), India (Bhaumik and Selarka 2012) and France (Bouzgarrou and Navatte 2013). These prior empirical findings support the notion that concentrated family ownership naturally mitigates principal-agent conflict of interests, leading to the undertakings of value-added corporate acquisitions. These further supports the notion that family firms are an effective organisational form in mitigating principal-agent conflict of interests (Kashmiri and Mahajan 2014).

However, the findings in **Table 6.1** are not consistent with empirical evidence obtained by past corporate acquisition studies (Campa and Hernando 2004; Martynova and Renneboog 2008; Tuch and O'Sullivan 2007; Alexandridis et al. 2010). These past studies found that acquirers, on average, earn insignificant announcements returns. This is because the effect of family firms is not considered in these prior researches. Findings in **Table 6.1** are also inconsistent with those in studies that showed firms with controlling owners are found to use corporate acquisition as a tool for minority expropriation, which induce negative announcement wealth effect experienced by the acquirers (Bae et al. 2002; Buysschaert et al. 2004; Bertrand et al. 2002).

Overall, results in **Table 6.1** provide valuable insight to policy makers and existing/ potential investors of Malaysian family-controlled firms. First, these results further supports the emphasis of Fan et al. (2011) and previous authors (Miller et al. 2007; Cucculelli and Micucci 2008) that implications for family firms from developed markets may not necessarily apply to family firms from emerging markets. Second, Malaysian family-controlled firms, on average, do not engage in minority expropriation activities through corporate acquisitions, as opposed to other Asian counterparts such as Korean-controlled *Chaebol* (Bae et al. 2002).[101] The findings in **Table 6.1** provide support to existing notion that Malaysia is an emerging economy with a strong investor protection system (World Bank 2009, 2011, 2012), being a regional leader in corporate governance (World Bank 2012) and the only emerging market of East Asia in which the government has institutionalised shareholder activism (Azizan and Ameer 2012) to effectively protect the interests of the minority shareholders.

[101] As discussed earlier, Korean *Chaebols* are found to expropriate minority shareholders through corporate acquisitions.

Third, the findings in **Table 6.1** sheds light on the relation between family ownership and family firm value within the context of Malaysia, an emerging economy. As discussed earlier, corporate acquisition activities provide the advantage as a direct measure for evidence of agency problem (Shleifer and Vishny 1997). In this case, results demonstrate that family ownership in Malaysian family-controlled firms encourage improvement the valuation outcome of corporate acquisitions. These evidence shows that family ownership in Malaysian family-controlled firms reduce principal-agent conflict. Results obtained here provide valuable insight concerning family ownership concentration; it sheds light that concentrated family ownership in the acquiring firms can be a panacea for the valuation outcome (wealth effect) of corporate acquisitions (Bhaumik and Selarka 2012). Lastly, results in **Table 6.1** answer the **Research question 1**, Malaysian family-controlled firms, as acquirers, on average undertake value-enhancing corporate acquisitions.

6.3 Baseline Regression

6.3.1 Baseline Regression Analysis

This section examines the announcement returns to Malaysian family-controlled acquirers in a multivariate regression setting. To control for known determinants of acquirer returns within the context of Malaysian family firm studies, the determinants are recognised based on past empirical evidence in the literature of family firms and corporate acquisitions. These determinants and related measures have been discussed in *Chapter 5 – Research Methodology*.

Table 6.2 provides OLS regression results of Malaysian family-controlled acquirers' returns based on **equation 5.6** – the baseline model. The reported results from the baseline regression in **Table 6.2** form the basis to draw empirical inferences on the tested hypotheses, which are discussed further in detail in Section 6.4 to Section 6.10.[102] Column (1)-(3) and Column (4)-(6) report the results of the multivariate regressions that regress the dependent variable $\overline{\mathrm{CAR}}$ on the explanatory variables, across the three-day event window (-1, +1), five-day event window (-2, +2) and seven-day event window (-3, +3), respectively. The dependent variable $\overline{\mathrm{CAR}}$ of Column (1)-(3) is estimated from market model, while the dependent variable $\overline{\mathrm{CAR}}$ of Column (4)-(6) is estimated from market-adjusted model. Day 0 is the day the announcement is released. Inferences are made and discussed based on the baseline results in Column (1). To support the results reported in Column (1) and to support the inferences drawn based on Column (1), additional results are reported alongside Column (1) in Column (2)-(6) for robustness and sensitivity analysis.

[102] The baseline model – **Equation 5.6** is further expanded to examine Hypothesis 2, Hypothesis 4 and Hypothesis 5.

Table 6.2
Baseline Model Regression of Malaysian Family-Controlled Acquirers Cumulative Abnormal Returns (CAR)

$CAR_i = \alpha_i + \beta_{i1}\ Own_i + \beta_{i2}\ FamilyCEO_i + \beta_{i3}\ Fam\_Ind_i + \beta_{i4}\ F\_Dual_i + \beta_{i5}\ DualCEO_i + \beta_{i6}\ Ind\_Director_i + \beta_{i7}\ Rpa_i + \beta_{i8}\ Firmyear_i + \beta_{i9}\ Pre\_CAR_i + \beta_{i10}\ non\_related_i + \beta_{i11}\ FCF_i + \beta_{i12}\ LN\_MVE_i + \beta_{i13}\ LN\_RM_i + \beta_{i14}\ Crossborder_i + \beta_{i15}\ Public_i + \beta_{16}\ Equity_i + \beta_{17}\ Yr08\_11_i + \varepsilon_i$

	Market Model $\overline{CAR}$			Market Adjusted Model $\overline{CAR}$		
	(1)	(2)	(3)	(4)	(5)	(6)
$\overline{CAR}$	(-1,+1)	(-2,+2)	(-3,+3)	(-1,+1)	(-2,+2)	(-3,+3)
Own	-0.0036	0.0254	-0.0036	-0.0075	0.0214	-0.0050
	(-0.21)	(0.97)	(-0.13)	(-0.43)	(0.85)	(-0.19)
FamilyCEO	1.2975*	1.7412*	1.4894	0.9824	1.5613	1.2811
	(1.82)	(1.66)	(1.45)	(1.32)	(1.43)	(1.26)
Fam_Ind	-1.2527**	-1.2124	-0.2877	-1.2001**	-1.1995	-0.2581
	(-2.35)	(-1.53)	(-0.30)	(-2.24)	(-1.54)	(-0.27)
F_Dual	-0.5704	-1.9075**	-1.5486*	-0.4707	-1.8948**	-1.4271
	(-0.98)	(-2.42)	(-1.65)	(-0.80)	(-2.43)	(-1.53)
DualCEO	-0.6872	-0.0755	-0.2495	-0.7231	-0.1584	-0.3862
	(-1.17)	(-0.08)	(-0.24)	(-1.22)	(-0.17)	(-0.38)
Ind_Director	-0.0863***	-0.1187***	-0.1218***	-0.0807***	-0.1075***	-0.1043***
	(-4.23)	(-4.99)	(-3.74)	(-3.87)	(-4.67)	(-3.38)
Rpa	-0.9027**	-1.4820**	-1.5882**	-1.0789**	-1.7314***	-1.9070***
	(-2.00)	(-2.38)	(-2.29)	(-2.30)	(-2.75)	(-2.81)
Firmyear	0.0268**	0.0352**	0.0489**	0.0194	0.0231	0.0342*
	(2.20)	(2.01)	(2.29)	(1.54)	(1.29)	(1.72)
Pre_CAR	0.0165	0.0150	0.0148	0.0132**	0.0149*	0.0174*
	(0.99)	(0.77)	(0.64)	(2.09)	(1.82)	(1.93)
non_related	-1.4288**	-0.6482	-0.9897	-1.4810**	-0.8381	-1.2424
	(-2.03)	(-0.74)	(-0.93)	(-2.04)	(-0.95)	(-1.17)
FCF	0.4244	4.2591	9.4492	-0.9666	1.6870	6.6886
	(0.08)	(0.59)	(1.18)	(-0.18)	(0.24)	(0.86)
LN_MVE	-0.0526	-0.0717	0.0590	-0.0060	-0.0290	0.0904
	(-0.36)	(-0.29)	(0.23)	(-0.04)	(-0.11)	(0.35)
LN_RM	-0.3518***	-0.3911**	-0.4143*	-0.3253***	-0.3095*	-0.3096
	(-2.80)	(-2.11)	(-1.73)	(-2.66)	(-1.76)	(-1.33)
Crossborder	-1.3601***	-1.6637**	-1.2285	-1.2803***	-1.5307**	-0.9475
	(-3.06)	(-2.58)	(-1.51)	(-2.86)	(-2.42)	(-1.17)
Public	2.7986*	0.6814	0.8374	2.6278	1.1469	1.6791
	(1.65)	(0.17)	(0.30)	(1.49)	(0.26)	(0.54)
Equity	2.1996**	2.7319*	3.3505**	1.9753*	2.5727**	2.9863*
	(1.98)	(1.96)	(2.01)	(1.74)	(2.03)	(1.90)
Yr08_11	-0.8850**	-0.7102	-0.4049	-0.7439*	-0.5838	-0.3178
	(-2.11)	(-1.22)	(-0.60)	(-1.77)	(-1.01)	(-0.49)
Constant	11.0291***	11.6838***	10.0219**	10.1367***	10.0140**	8.0011*
	(3.93)	(2.99)	(2.19)	(3.51)	(2.48)	(1.76)
Observations	267	267	267	267	267	267
R-squared	0.186	0.144	0.120	0.180	0.138	0.111
Adjusted R-squared	0.131	0.0857	0.0601	0.124	0.0789	0.0499
F-Test	3.657***	3.283***	2.492***	3.095***	2.864***	2.116***
	(0.0000)	(0.0003)	(0.0045)	(0.0004)	(0.0029)	(0.0070)

The sample comprises 267 observations. The observations denote 267 corporate acquisition announcements made by 129 Malaysian family-controlled firms listed on the Main Board of Bursa across the sample period of 2002 to 2011. The reported dependent variable – CAR is regressed against the independent variables and control variables for each model from Column (1)-(6). Columns 1, 2 and 3 report the CAR that is estimated using market model. Columns 4, 5 and 6 report the CAR that is estimated from market adjusted model. The CAR denotes cumulative abnormal returns over an event window for each observation. The reported CAR estimated from both the market model and market adjusted model are cumulated over the three-day event window (-1, +1), the five-day event window (-2, +2) and the seven-day event window (-3, +3), respectively. Day 0 denotes the day of corporate acquisition announcement release. The variable *Own* denotes total family equity ownership as measured by total percentage of equity ownership in the company. The variable *FamilyCEO* denotes a dummy variable that equals to one when family member of the controlling family is the CEO, zero otherwise. The variable *Fam_Ind* denotes a dummy variable that equals to one when the ratio of total number of family members on the board over total number of independent directors on the board is more than 1, zero otherwise. The variable *F_Dual* denotes a dummy variable that equals to one when two related family members hold the positions of CEO and chairman, zero otherwise. The variable *DualCEO* denotes a dummy variable that equals to one when the position of CEO and chairman are both held by the same individual, zero otherwise. The variable *Ind_Director* denotes the total percentage of independent directors on the board. The variable *Rpa* denotes a dummy variable that equals to one when the acquisition is a related party corporate acquisition, zero otherwise. The variable *Firmyear* denotes the firm age of the company. The variable *Pre_CAR* denotes an acquirer's pre-announcement stock price run-up, which is measured by cumulative abnormal returns over the 200-day window (event day -210 to day -11) and is estimated using market model. The variable *non_related* denotes a dummy variable that equals to one when target is not within the same industry as the industry of the acquirer, zero otherwise. The variable *FCF* denotes free cash flow ratio, which is measured by [(Operating Income + Depreciation – Interest expense – Taxes – Preferred dividend – Common dividend) / Total Assets]. The variable *LN_MVE* denotes firm size that is measured by log of market capitalisation. The variable *LN_RM* denotes transaction size that is measured by the log of transaction dollar value of the acquisition in Malaysia Ringgit currency. The variable *Crossborder* denotes a dummy variable that equals to one for the acquisition of a non-domestic target, zero otherwise. The variable *Public* denotes a dummy variable that equals to one for acquisition of a public target, zero otherwise. The variable *Equity* denotes a dummy variable that equals to one for equity-financed acquisition, zero otherwise. The variable *Yr08_11* denotes a dummy variable that equals to one when the year of the event is during the period of 2008 to 2011, zero otherwise. The *,**, and *** stand for statistical significance based on two-wide tests at the 10%, 5%, and 1% levels, respectively. The numbers in parentheses denote the standard error.

Results from the regression models with low R square must be viewed with scepticism, even if the F-statistics for the regression models are positive and significant (Fuller et al. 2002; Travlos 1987; Chang 1998; Morck et al. 1990). **Table 6.2** reports significant F-statistics at 1% across all models from Column (1)-(6). F-statistics is a measure of the overall significance of the estimated regression model (Gujarati 2004). The F-statistic value with 1% significance level in **Table 6.2** rejects the F-test null hypothesis that all of the coefficients are equal to zero.[103]

[103] All the examined models in **Table 6.2** with 1% significance level of F-statistics have significant predictive capability. The F-statistics value and significance also show that regression specification fits the data reasonably well (Bhaumik and Selarka 2012).

Results from the baseline regression model in **Table 6.2** provide evidence on the examined hypotheses. Inferences for the hypotheses (based on the *variables of concern*) are made later in Section 6.4 to Section 6.10, based on the baseline regression results and other generated results in Section 6.4 to Section 6.10, respectively.

In **Table 6.2**, significant relation between the control variables and $\overline{\mathrm{CAR}}$ across various event windows and measure of $\overline{\mathrm{CAR}}$ are reported, which are consistent with previous findings. Specifically, it is observed that *Ln_RM* has a negative relationp with $\overline{\mathrm{CAR}}$. This is consistent with previous findings of the negative relation between deal value and announcement-period $\overline{\mathrm{CAR}}$ due to the complex factors associated with large deal, which lead to overpayment by the acquirers (Alexandridis et al. 2013). *Crossborder* also reveals a negative relation with announcement-period $\overline{\mathrm{CAR}}$. This is consistent with previous findings of a significant negative relation between cross-border acquisitions and announcement-period $\overline{\mathrm{CAR}}$ (Bris and Cabolis 2008), where the costs of internationalisation outweigh the benefits of portfolio diversifications for the acquirers (Moeller and Schlingemann 2005). **Table 6.2** also reports a significant positive relation between *Equity* and $\overline{\mathrm{CAR}}$. This is consistent with previous findings of the significant positive relation between equity-financed corporate acquisitions and announcement-period $\overline{\mathrm{CAR}}$. Previous studies (Chang 1998) has attributed this positive relationship to the addition of the expertise and skills from the new shareholders, which are beneficial to the acquirers and other shareholders. Consequently, the acquiring firms benefit from the monitoring of these new shareholders, who are also the new owners of the acquiring firm. Findings of Chang (1998) is further supported by Masulis et al. (2007), who also finds that equity-financed acquisition increase the announcement-period stock performance of acquiring firm.

The relation and statistical significance between family firm age (*Firmyear*) and $\overline{\mathrm{CAR}}$ are fairly stable across the models in **Table 6.2.** The relation is especially positive and significant for market-model $\overline{\mathrm{CAR}}$ across the three examined event windows. The

significance of the positive relation between family firm age and $\overline{\mathrm{CAR}}$ is inconsistent with past findings on family firms from developed countries. Anderson and Reeb's (2003a) findings on S&P500 family firms and Villalonga and Amit's (2006) findings on Canadian family firms documented a negative relation between family firm age and family firm value. The results in **Table 6.2** reinforce the emphasis of Fan et al. (2011) and previous authors (Miller et al. 2007; Cucculelli and Micucci 2008) that implications for family firms from developed markets may not necessarily apply to family firms from emerging markets, an area that requires further investigation. In this case, the gap has been filled in terms of the implications for the relation between family firm age and family firm value, within the context of Malaysia, a developing Asian economy. The finding in **Table 6.2** also supports previous notions on Asian families' unique practices to maintain a good performance track record and ensure continuing long-term survival of the family firms. [104]

Results from the baseline model in **Table 6.2** also reveal a significant negative relation between *Ind_Director* and $\overline{\mathrm{CAR}}$ across all event windows and all measures of $\overline{\mathrm{CAR}}$. This reported significant negative relation between *Ind_Director* and $\overline{\mathrm{CAR}}$ is not consistent with the generally accepted notion that higher proportion of independent directors on the board has positive effect on firm value (Anderson and Reeb 2004). However, the significant negative relation between *Ind_Director* and $\overline{\mathrm{CAR}}$ from the reported baseline results in **Table 6.2** is consistent with the findings reported in past studies (Byrd and Hickman 1992; Agrawal and Knoeber 1996; Jameson et al. 2014). These studies document empirical evidence that stronger presence of independent directors on the board inflict negative impact on firm performance.

[104] Members of Thailand family firms perform marriages that add value to family firms, when the partners are from either prominent businesses or political families (Bunkanwanicha et al. 2013). The performance of Japanese family firms, on the other hand, is maintained through acceptance of capable managers into the family in the form of adoptions or marriages (Mehrotra et al. 2013).

The presence of outside directors on the board does not necessarily contribute positive effect to the family firm as a whole (Jonovic 1989). A classical board structure may only suit a few family firms (Ford 1989). Consistent with this notion, controlling families are found to be in favour of minimising the presence of independent directors and are reluctant to adopt monitoring practices (Anderson and Reeb 2004; Chen and Nowland 2010).[105] Family firms may appoint directors who are socially connected to the controlling family owners for the mere purpose of satisfying the regulatory requirement for independent directors (Jameson et al. 2014), which results in less effective monitoring (Hwang and Kim 2009). In general, these existing studies demonstrate that negative relation between independent board members and family firms in comparison to other non-family firms.

[105] This practice does not necessarily result in detrimental effect on firm value (Chen and Nowland 2010).

6.3.2 Regression Diagnostic on Baseline Model

Assumptions underlying an OLS regression need to be examined and treated with appropriate statistical procedures to ensure robust inferences can be derived from the multivariate regression analysis. The base model in this study is described in **equation 5.6** (Chapter 5), which is regressed against $\overline{\mathrm{CAR}}(-1,+1)$ of market model $\overline{\mathrm{CAR}}$. Details of the regression diagnostics are discussed in this section, particularly the validity of the sample size, model residuals normality, heteroskedasticity, model specification and multicollinearity. In summary, based on the following results from the regression diagnostics, the base model is able to provide robust inferences and does not violate the necessary diagnostic properties of the regression model assumptions.

The results displayed in **Appendix A4 Figure A4.1** and **Appendix A4 Figure A4.2** report that there is a deviation from normality for the residuals, with leptokurtic distribution for the baseline model. It has been emphasised by statisticians that the violation of prediction error normality assumption is virtually inconsequential for sample sizes that are sufficiently large (Brooks 2008; Wooldridge 2009; Bohrnstedt and Carter 1971; Sen and Srivastava 1990; Cohen et al. 2013; Hanneman et al. 2012). Normality of the residuals are needed for tests of significance to make inferential statements based on the tests of OLS regression estimated parameters (Draper and Smith 1981). Nevertheless, in the case when the random errors depart from normal distribution but the sample size is large, the t-tests and F-tests still remain robust by relying on the *Central Limit Theorem* (Gujarati 2004; Baltagi 2011; Berry and Feldman 1985; Yan and Su 2009). Statistical theory showed that the OLS estimates generally tend to be normally distributed when the sample sizes increase indefinitely, based on the *Central Limit Theorem* (Malinvaud 1970; Theil 1978). The prediction error normality assumption is only critical for small samples (Berry and Feldman 1985). With reference to recommendations from previous authors, with sample size that is relatively large, the violations of the normality assumption do not lead to serious problems with the

interpretation of either significance tests or confidence intervals (Brooks 2008; Wooldridge 2009; Bohrnstedt and Carter 1971; Sen and Srivastava 1990; Cohen et al. 2013; Hanneman et al. 2012). [106]

In regard to the size of the sample, there are no general prescriptions on how large the sample size must be for the test statistics approximation to be good enough (Gujarati 2004; Wooldridge 2009). Econometricians normally perceive that observations of more than 30 are satisfactory (Gujarati, 2004). Hair et al. (2006), on the other hand, mentioned that sample size depends on the number of independent variables that the researchers incorporate in the regression model. It is suggested that for multiple regression analysis, a minimum sample size of 100 observations are needed. They also mentioned that for each independent variable employed in the regression model, the sample size should not fall below a ratio of 5:1. The desirable ratio is between 15:1 and 20:1, where there should be 15–20 observations available for each individual independent variable. The higher the ratio, the higher is the degree of freedom and statistical power responsible for achieving generalisability of the results (Rudestam and Newton 1999; Hair et al. 2006). This study employs 267 observations with 17 independent variables incorporated in the base model as specified in **equation 5.6**. The ratio between the numbers of observations with the numbers of considered independent variables is 15:1, where there are approximately 15 observations available for each individual independent variable. The 15:1 ratio is within the desirable ratio range of 15:1 to 20:1 as stated by Hair et al. (2006) and Rudestam and Newton (1999).

It is important that the homoskedasticity assumption of the prediction errors is held in order to justify the inferences from the t-statistics (Wooldridge 2009; Brooks 2008; Yan and Su 2009). In the case where the variances of the error terms are not constant, the t

[106] Sall and Jones (2004) also provided Monte Carlo evidence that as long as the departure from normality is not too large, the probability of a type 1 error (rejecting null when it is true) is at or below 0.05 with a 95% confidence interval. The examined model residuals by Sall and Jones (2004) are the symmetrical double exponential distribution with a kurtosis of 6 (twice that of the normal distribution). The skewed normal used was obtained by moving 5% of the simulated distribution with 3 standard deviations to the left.

statistics become invalid regardless of how large the sample is, and it is irrelevant to the *Central Limit Theorem*. In the case when the prediction errors are found to be heteroskedastic, the inferences from the OLS regression analysis remain robust with the application of heteroskedasticity-robust procedure. As mentioned by Stock and Watson (2003), the application of heteroskedasticity-robust standard errors procedures ensure statistical inferences are valid regardless of whether the residuals are heteroskedastic or not. Hence, the *Huber-White robust standard errors* are applied consistently across all the regression models analysed in this thesis. The *Huber-White robust standard errors* procedure is also able to address the residuals normality issue (Stock and Watson 2003). This technique produces parameter estimates and standard errors that are robust to *departures from normality* (Acock 2008).

Model specification error can occur when one or more relevant variables are omitted or included in the model. The effects are the inflation of model residuals and wrong regression estimations (Gujarati 2004). To test whether the baseline model experiences any significant model specification error, a model specification *link test* is performed. A Ramsey RESET test is also performed on the base model to detect if there are any omitted variables for the baseline model. The outcomes of the tests are displayed in **Appendix A4 Figure A4.3**. The variable *_hat*, which is the variable of prediction, should be significant since it is the predicted value. The variable of concern is the squared prediction, *_hatsq*. In the case if the *_hatsq* is significant, it implies that the model experiences model specification error. **Appendix A4 Figure A4.4** reveals that *_hatsq* is *insignificant*, which implies that the model does not experience any specification error. A Ramsey RESET test is also performed to detect if there are any omitted variables for the baseline model. The outcome exhibited in **Appendix A4 Figure A4.4** reveals insignificant estimates, which implies that the baseline model overall does not experience any significant model specification error.

Lastly, a multicollinearity test is performed on the baseline model. Multicollinearity refers to the situation when there are significant correlations among the independent variables.[107] Furthermore, multicollinearity among the independent variables also increases the variance of the standard errors of the regression coefficient estimates, leading to smaller t-statistics and less precision in the analysis of the model (Wübben and Schiereck 2007; Berry and Feldman 1985; Yan and Su 2009). The *Variance Inflation Factor* (VIF) procedure is used to detect any multicollinearity among the independent variables of the baseline model. For variables with VIF values that are greater than 10 or 1/VIF values (the tolerance value) that are lower than 0.1, they imply the presence of a linear relation with other independent variables. The outcome of the test is reported in **Appendix A4 Figure A4.5**. The baseline model passes the test of multicollinearity. There is no significant linear relation among the examined independent variables (the determinants) in this study.

Overall, the regression diagnostics performed on the baseline model (which is regressed against $\overline{\mathrm{CAR}}(-1,+1)$ of market model) provides further assurance that the results and analyses of the model are reliable. Regression diagnostics are also performed for **equation 5.6**, which is regressed against $\overline{\mathrm{CAR}}(-2,+2)$, and $\overline{\mathrm{CAR}}(-3,+3)$ of market model $\overline{\mathrm{CAR}}$ as well as against $\overline{\mathrm{CAR}}(-1,+1)$, $\overline{\mathrm{CAR}}(-2,+2)$, and $\overline{\mathrm{CAR}}(-1,+1)$ of market-adjusted model $\overline{\mathrm{CAR}}$. A summary of the regressions diagnostic results are displayed in **Appendix A4 Table A4.1**. All these models pass the test of regression diagnostics. The results from these models provide reliable inferences that do not violate the necessary diagnostic properties of the regression model assumptions.

[107] In the case when there is a perfect collinearity among the independent variables, it yields a precise R-square of 1, which induces biases in inferences made based on the examined model.

6.3.3 Robustness Analysis of Baseline Model

Table 6.3
Robust Regression of Malaysian Family-Controlled Acquirers Cumulative Abnormal Returns (CAR)

$CAR_i = \alpha_i + \beta_{i1}\ Own_i + \beta_{i2}\ FamilyCEO_i + \beta_{i3}\ Fam\_Ind_i + \beta_{i4}\ F\_Dual_i + \beta_{i5}\ DualCEO_i + \beta_{i6}\ Ind\_Director_i + \beta_{i7}\ Rpa_i + \beta_{i8}\ Firmyear_i + \beta_{i9}\ Pre\_CAR_i + \beta_{i10}\ non\_related_i + \beta_{i11}\ FCF_i + \beta_{i12}\ LN\_MVE_i + \beta_{i13}\ LN\_RM_i + \beta_{i14}\ Crossborder_i + \beta_{i15}\ Public_i + \beta_{16}\ Equity_i + \beta_{17}\ Yr08\_11_i + \varepsilon_i$

	Market Model			Market Adjusted Model		
	(1)	(2)	(3)	(4)	(5)	(6)
$\overline{CAR}$	(-1,+1)	(-2,+2)	(-3,+3)	(-1,+1)	(-2,+2)	(-3,+3)
Own	0.0086	0.0188	0.0033	0.0105	0.0167	0.0100
	(0.61)	(0.93)	(0.15)	(0.74)	(0.84)	(0.48)
FamilyCEO	1.2229**	1.9170**	1.4936	0.9604	1.5852*	1.6287*
	(2.10)	(2.32)	(1.62)	(1.64)	(1.94)	(1.90)
Fam_Ind	-0.7768*	-1.0538	0.2543	-0.7874*	-1.0386	0.2455
	(-1.71)	(-1.63)	(0.35)	(-1.72)	(-1.62)	(0.36)
F_Dual	-0.7900	-1.7424**	-1.9101**	-0.6633	-1.8265***	-2.2579***
	(-1.60)	(-2.49)	(-2.44)	(-1.35)	(-2.65)	(-3.12)
DualCEO	-0.3274	-0.5047	-0.6698	-0.2533	-0.7404	-0.9135
	(-0.67)	(-0.73)	(-0.87)	(-0.52)	(-1.08)	(-1.27)
Ind_Director	-0.0818***	-0.1069***	-0.0812***	-0.0776***	-0.0971***	-0.0611**
	(-4.19)	(-3.85)	(-2.62)	(-3.96)	(-3.54)	(-2.12)
Rpa	-0.2924	-0.7761	-0.4811	-0.5109	-0.9568*	-0.5416
	(-0.72)	(-1.34)	(-0.74)	(-1.24)	(-1.67)	(-0.90)
Firmyear	0.0341***	0.0369**	0.0562***	0.0308***	0.0201	0.0349**
	(2.98)	(2.27)	(3.09)	(2.69)	(1.25)	(2.06)
Pre_CAR	0.0034	-0.0014	0.0112	0.0084*	0.0076	0.0066
	(0.30)	(-0.09)	(0.62)	(1.90)	(1.23)	(1.02)
non_related	-1.0595*	-0.6636	-0.4746	-0.9581*	-0.6905	-0.6546
	(-1.88)	(-0.83)	(-0.53)	(-1.69)	(-0.87)	(-0.79)
FCF	1.9726	6.8662	10.0299	-0.0149	5.4326	5.5467
	(0.45)	(1.11)	(1.45)	(-0.00)	(0.88)	(0.86)
LN_MVE	-0.0312	-0.0485	0.0023	-0.0013	0.1321	0.0829
	(-0.23)	(-0.25)	(0.01)	(-0.01)	(0.70)	(0.42)
LN_RM	-0.2947**	-0.2141	-0.2385	-0.2453**	-0.1604	-0.1855
	(-2.59)	(-1.32)	(-1.32)	(-2.14)	(-1.00)	(-1.10)
Crossborder	-0.9769**	-1.0503*	-0.7561	-0.8866**	-0.9068	-0.6308
	(-2.44)	(-1.84)	(-1.19)	(-2.20)	(-1.61)	(-1.07)
Public	2.9899**	4.2786**	1.0483	2.6402*	2.5670	3.3539*
	(2.21)	(2.23)	(0.49)	(1.94)	(1.35)	(1.68)
Equity	1.6972	2.5865*	3.3945**	1.3956	2.5632*	3.2721**
	(1.64)	(1.76)	(2.06)	(1.34)	(1.76)	(2.14)
Yr08_11	-0.6047*	-0.6227	-0.2088	-0.4540	-0.3554	-0.0302
	(-1.70)	(-1.23)	(-0.37)	(-1.27)	(-0.71)	(-0.06)
Constant	7.7623***	7.1187*	5.1184	6.4946**	3.2219	2.4566
	(2.99)	(1.93)	(1.24)	(2.50)	(0.89)	(0.64)
Observations	267	267	267	267	267	267
R-squared	0.172	0.141	0.114	0.152	0.124	0.105
Adjusted R-squared	0.115	0.0828	0.0531	0.0936	0.0644	0.0442
F-Test	3.032***	2.413***	1.878**	2.615***	2.076***	1.724**
	(0.0001)	(0.0017)	(0.0203)	(0.0006)	(0.0084)	(0.0391)

The sample comprises 267 observations. The observations denote 267 corporate acquisition announcements made by 129 Malaysian family-controlled firms listed on the Main Board of Bursa across the sample period 2002 and 2011. The reported dependent variable – CAR is regressed against the independent variables and control variables for each model from Column (1)-(6). Column 1, 2 and 3 report the CAR that are estimated using market model. Column 4, 5 and 6 reports the CAR that are estimated from market adjusted model. The CAR denotes cumulative abnormal returns over an event window for each observation. The reported CAR estimated from both the market model and market adjusted model are cumulated over the three-day event window (-1, +1), the five-day event window (-2, +2) and the seven-day event window (-3,+3), respectively. Day 0 denotes the day of corporate acquisition announcement release. The variable *Own* denotes total family equity ownership as measured by total percentage of equity ownership in the company. The variable *FamilyCEO* denotes a dummy variable that equals to one when family member of the controlling family is the CEO, zero otherwise. The variable *Fam_Ind* denotes a dummy variable that equals to one when the ratio of total number family members on board over total numbers of independent directors on board is more than 1, zero otherwise. The variable *F_Dual* denotes a dummy variable that equals to one when two related family members hold the positions of CEO and chairman, zero otherwise. The variable *DualCEO* denotes a dummy variable that equals to one when the position of CEO and chairman are both held by the same individual, zero otherwise. The variable *Ind_Director* denotes the total percentage of independent director on the board. The variable *Rpa* denotes a dummy variable that equals to one when the acquisition is a related party corporate acquisition, zero otherwise The variable *Firmyear* denotes the firm age of the company. The variable *Pre_CAR* denotes an acquirer's pre-announcement stock price run-up, which is measured by cumulative abnormal returns over the 200-day window (event day -210 to day -11) and is estimated using market model. The variable *non_related* denotes a dummy variable that equals to one when target is not within the same industry as the industry of the acquirer, zero otherwise The variable *FCF* denotes free cash flow ratio that is measured by [(Operating Income + Depreciation – Interest expense – Taxes – Preferred dividend – Common dividend) / Total Assets]. The variable *LN_MVE* denotes firm size that is measured by log of market capitalization. The variable *LN_RM* denotes transaction size that is measured by the log of transaction dollar value of the acquisition in Malaysia Ringgit currency. The variable *Crossborder* denotes a dummy variable that equals to one for the acquisition of non-domestic target, zero otherwise. The variable *Public* denotes a dummy variable that equals to one for acquisition of public target, zero otherwise. The variable *Equity* denotes a dummy variable that equals to equity-financed acquisition, zero otherwise. The variable *Yr08_11* denotes a dummy variable that equals to one when the year of the event is during the period of 2008-2011, zero otherwise. The *,**, and *** stand for statistical significance based on two-wide tests at the 10%, 5%, 1% level, respectively. The numbers in parentheses denote the standard error.

The baseline model **equation 5.6** is re-estimated using robust regressions technique, known as iterative weighted least squares (Blanchard and Leigh 2013). As mentioned in Chapter 5 Methodology, robust regression can help justify the use of ordinary least squares results (Verardi and Croux 2009). When robust regression results are similar to those of ordinary least squares, there is a reassurance that results of the ordinary least squares are not influenced by the outliers (Abell et al. 1999).

Table 6.3 above reveals that the overall magnitude and significance of the explanatory variables of $\overline{\mathrm{CAR}}$ remain unchanged. The significance level for the magnitude of the explanatory variables generally becomes more persistent across different event windows for the market-model $\overline{\mathrm{CAR}}$ and market-adjusted-model $\overline{\mathrm{CAR}}$, except for *rpa*.

The magnitude of *rpa* supports *Hypothesis 8,* which posits a negative relation between related party corporate acquisitions and $\overline{\mathrm{CAR}}$ of Malaysian family-controlled acquirers. However, the significance of the magnitude diminishes, in comparison with those from **Table 6.2 in Section 6.3.1**. This shows that the significance of the negative relation between *rpa* and $\overline{\mathrm{CAR}}$ (across different event windows and different measures of $\overline{\mathrm{CAR}}$ in **Table 6.2 in Section 6.3.1**) is induced by influential observations. *Stata* is used to perform estimation on the models using robust regression (the command *rreg*); any influential observations (outliers) with Cook's distance of more than 1 will be omitted from observations when performing estimation for the robust regression. **Table 6.3** reveals that none of the observations are omitted from the observations of the robust regression. This indicates that there may be certain observations that are influential to some extent, while not exceeding the Cook's distance of more than 1. Even though the significance of the relation diminishes in **Table 6.3**, the direction of the relation remains unchanged. There is weak evidence supporting the value-destroying behaviour of Malaysian family-controlled acquirers when they choose corporate acquisitions that involve family-related parties.

6.4 H1 Family Ownership: Linear Relation

6.4.1 Multivariate Analysis

The baseline model results in **Table 6.2 of Section 6.3.1** and the results from the robust regressions in **Table 6.3 of Section 6.3.3** simultaneously support the notion that there is no significant linear relation between family ownership and family firm value. In this case, Hypothesis 1 is rejected. *Hypothesis 1* hypothesises a positive linear relation between family ownership and $\overline{\mathrm{CAR}}$ of Malaysian family-controlled acquirers, based on the notion of *Agency Theory I (principal-agent theory)*.

Results presented in **Table 6.2** and **Table 6.3** support findings of Maury (2006) that no significant positive *linear* relation exists between family ownership and family firm value. Increasing family ownership does not always increase firm value; in fact, high level of family ownership increases family opportunism (Maury 2006). Family ownership at concentrated level induces family owners to pursue personal objectives over profit maximisation. Specifically, family owners with undiversified ownership induce different investment behaviours and preferences which tend to be more risk-averse in comparison with those exhibited by the atomistic shareholders (Anderson and Reeb 2003b; Anderson et al. 2012). As the level of family ownership increases, the adoption of non-economic objective of the controlling family becomes more likely (Chrisman et al. 2012). Existing family firm studies also do no support the linear relation between family ownership and family firm value, for family firms of S&P500 in the US (Anderson and Reeb 2003b), Poland (Kowalewski et al. 2010), Canada (Ben-Amar and André 2006), Europe (Maury 2006; Pindado et al. 2013), India (Bhaumik and Selarka 2012) and Switzerland (Isakov and Weisskopf 2014).

6.5 H2 Family Ownership: Nonlinear Relation

6.5.1 Univariate Analysis

Table 6.4

Announcement Period Mean Cumulative Abnormal Returns for Malaysian Family-Controlled Firms for Subsamples Categorised by Family Ownership

The sample comprises mean cumulative abnormal returns ($\overline{CAR}$) from the sample 267 corporate acquisition announcements of 129 Malaysian family-controlled firms. The 267 corporate acquisition announcements are categorised by family ownership across the sample period 2002 to 2011. The term *< 50%* denotes family ownership of less than 50% in acquirer firms. The term *Between 50%–59%* denotes family ownership of 50% or more and less than 60% in acquirer firms. The term *60%–69%* denotes family ownership of 60% or more and less than 70% in acquirer firms. The term *70% or more* denotes family ownership at 70% or more in acquirer firms. The average $\overline{CAR}$ of each categorised corporate acquisition announcements is expressed in percentage of returns. *N* and *%* of Column 1 report the frequencies and percentage of the categorised sample corporate acquisition announcements, respectively. Columns 2, 3 and 4 display the average $\overline{CAR}$ estimated using the market model. Columns 5, 6 and 7 present the average $\overline{CAR}$ estimated from the market adjusted model. The $\overline{CAR}$ is reported over the three-day event window (-1,+1), the five-day event window (-2, +2) and the seven-day event window (-3,+3). The statistical test employs Kolari and Pynnonen's (2011) generalised rank test (GRANK) to examine if $\overline{CAR}$ are significantly different from zero. The numbers in parentheses denote the standard error. *,**, and *** stand for statistical significance of GRANK at the 10%, 5%, and 1% levels respectively.

	N (%)	Market Model CAR			Market Adjusted Model CAR		
$\overline{CAR}$		(-1,+1)	(-2,+2)	(-3,+3)	(-1,+1)	(-2,+2)	(-3,+3)
Subsamples grouped by family ownership [108]							
< 50%	158 (59%)	0.4749* (1.9565)	0.4702** (1.9772)	0.9136*** (2.9773)	0.6171** (2.0840)	0.7712** (2.3885)	1.2921*** 3.1857
50%-59%	61 (23%)	0.6645* (1.7500)	1.2291** (2.1847)	0.6355 (0.9450)	0.8234* (1.7680)	1.5566*** (2.6360)	1.2223 (1.4437)
60%-69%	32 (12%)	0.4442 (1.0875)	1.0524* (1.7058)	0.7028 (1.4407)	0.4794** (2.5253)	0.2753 (1.3831)	0.2798 (0.7785)
70% and more[109]	16 (6%)	-1.1070*** (-3.4660)	-1.4654** (-1.9132)	-0.9142 (-0.6306)	-0.6656** (-2.3883)	-0.7606 (-1.2163)	-0.0159 (-0.3096)
Total	267 (100%)						

[108] Family ownership at 50% and more ensure absolute control over the family firm (Faccio and Lang 2002).

[109] The maximum family ownership in this sample is 84.5%. There is only one sample firm that carries family ownership of more than 80%.

Table 6.4 tabulates the announcement-period mean cumulative abnormal returns ($\overline{\mathrm{CAR}}$) for the 267 sample corporate acquisition announcements over the period 2002 to 2011, which are classified according to different levels of family ownership in Malaysian family-controlled acquirers. Results of **Table 6.4** provide preliminary evidence of the nonlinear relation between family ownership and announcement period $\overline{\mathrm{CAR}}$. The purpose of classifying the 267 sample announcements and reporting the $\overline{\mathrm{CAR}}$ according to different levels of family ownership of the Malaysian family-controlled acquiring firms is to examine the possibility of a nonlinear relation between family ownership and $\overline{\mathrm{CAR}}$, as predicted by *Hypothesis 2*.

Table 6.4 reports the cumulative abnormal returns ($\overline{CAR}$) experienced by Malaysian family-controlled acquirers over various event windows. For the purpose of examining the sensitivity of the results, the $\overline{CAR}$ is reported over the three-day event window (-1,+1), the five-day event window (-2, +2) and the seven-day event window (-3,+3) respectively, where 0 denotes Day 0 — the announcement day. In addition, for the purpose of examining the sensitivity of the results to the measures of $\overline{CAR}$, $\overline{CAR}$ are measured by two models (market model and market-adjusted model) respectively and are reported across all the three examined event windows.

Table 6.4 reveals that, overall, there is a significant positive relation between family ownership and announcement-period wealth effect of corporate acquisitions—the $\overline{\mathrm{CAR}}$. When family ownership is less than 50% (for the subsample of < *50%*), the significance of the market model (market-adjusted model) $\overline{\mathrm{CAR}}(-1,+1)$ is at 10% (5%) with an average of 0.47% (0.61%) cumulated abnormal returns. The announcement wealth effect remains significant across all other examined event windows. This shows that the results are not sensitive to the measures of $\overline{\mathrm{CAR}}$ or the examined event window.

The significance of positive announcement wealth effect experienced by Malaysian family-controlled acquirers only persists when family ownership is less than 50%. When family ownership increases to 50% or more, the significance of $\overline{CAR}$ experienced by Malaysian family-controlled acquirers becomes weaker and insignificant across different event windows for the two measures of $\overline{\mathrm{CAR}}$, respectively. These indicate a prima facie evidence (Bhaumik and Selarka 2012) supporting *Hypothesis 2*, that there may be a nonlinear relation between family ownership and announcement-period CAR of Malaysian family-controlled acquirers.

Table 6.4 further reports $\overline{\mathrm{CAR}}$ that is tabulated for family ownership at 70% or more. The tabulated $\overline{\mathrm{CAR}}$ becomes negative and significant across most of the examined event windows for the two measures of $\overline{\mathrm{CAR}}$, respectively. This is another preliminary evidence supporting *Hypothesis 2*. Concentrated ownership in the hands of family reduces *Agency Problem I* (principal-agent conflicts). However, when a certain point of concentrated family ownership is reached, the benefit of mitigating *Agency Problem I* is offset by higher cost incurred by *Agency Problem II* (principal-principal conflicts). This is observable within the context of Malaysian family-controlled firms based on the reported results in **Table 6.4**.

Results of **Table 6.4** support a possible nonlinear relation between family ownership and family firm value (as measured by announcement-period abnormal returns). The results are consistent with past family firm studies for family firms from S&P500 in the US (Anderson and Reeb 2003b), Poland (Kowalewski et al. 2010), Canada (Ben-Amar and André 2006), Europe (Maury 2006; Pindado et al. 2013) and Switzerland (Isakov and Weisskopf 2014), which all documented a nonlinear relation between family ownership and family firm value. These past studies jointly demonstrated that family

firms originating from different countries with different corporate governance settings experienced a nonlinear relation between family ownership and family firm value. [110]

Overall, results in **Table 6.4** support the nonlinear relation between Malaysian family ownership and family firm value (as measured by $\overline{\mathrm{CAR}}$), as predicted by *Hypothesis 2*. The results also further demonstrate that within the context of Malaysia, *principal-principal conflict* (Agency Problem II) emerges as a result of increasing family ownership concentration.

These results imply that consistent with *interest alignment hypothesis*, increased family ownership reduces principal-agent conflict and induces beneficial value-enhancing effect on family firms. However, increasing family ownership also gradually gives rise to *principal-principal conflicts* (Villalonga and Amit 2006; Bhaumik and Selarka 2012; Maury 2006). This is because family owners with concentrated shareholdings have sufficient control and power to ensure that the family-controlled firms pursue activities and corporate strategies that favour family interest, which do not necessarily favour the interests of the minority shareholders (Allen and Sharon 1982). The adoption of non-economic objective of the controlling family becomes more likely as the level of family ownership increases (Chrisman et al. 2012). The controlling families can continue to pursue maximisation of firm performance while creating conflicts over wealth distribution among the shareholders (Ditmar et al. 2003).

[110] For Western Europe family firms from a strong protective environment (European countries with strong investor protection and higher quality corporate governance institution), Pindado et al. (2013) showed the nonlinear relation between family ownership and family firm value. This notion is also supported by existing empirical findings for emerging countries with low investor protection and weak corporate governance (La Porta et al. 2000; Johnson et al. 2000; Dyck and Zingales 2004). The occurrence of *Agency Conflict II* (*principal-principal conflict*) due to ownership concentration is also shown in India, an emerging market with weak corporate governance (Bhaumik and Selarka 2012).

6.5.2 Multivariate Analysis

Table 6.5

Non-Linearity Between Malaysian Family-Controlled Acquirers Cumulative Abnormal Returns (CAR) and Family Ownership: Squared Polynomial Model

$CAR_i = \alpha_i + \beta_{i1}\ Own_i + \beta_{i2}\ Own^2_i + \beta_{i3}\ FamilyCEO_i + \beta_{i4}\ Fam\_Ind_i + \beta_{i5}\ F\_Dual_i + \beta_{i6}\ DualCEO_i + \beta_{i7}\ Ind\_Director_i + \beta_{i8}\ Rpa_i + \beta_{i9}\ Firmyear_i + \beta_{i10}\ Pre\_CAR_i + \beta_{i11}\ non\_related_i + \beta_{i12}\ FCF_i + \beta_{i13}\ LN\_MVE_i + \beta_{i14}\ LN\_RM_i + \beta_{i15}\ Crossborder_i + \beta_{i16}\ Public_i + \beta_{17}\ Equity_i + \beta_{18}\ Yr08\_11_i + \varepsilon_i$

	Market Model			Market Adjusted Model		
	(1)	(2)	(3)	(4)	(5)	(6)
$\overline{CAR}$	(-1,+1)	(-2,+2)	(-3,+3)	(-1,+1)	(-2,+2)	(-3,+3)
Own	0.1964*	0.2806*	0.0945	0.1885*	0.2776	0.1176
	(1.90)	(1.67)	(0.57)	(1.81)	(1.58)	(0.70)
Own^2	-0.0021**	-0.0026	-0.0010	-0.0020**	-0.0027	-0.0013
	(-2.08)	(-1.54)	(-0.60)	(-2.01)	(-1.46)	(-0.74)
FamilyCEO	1.0681	1.4485	1.3767	0.7612	1.2722	1.1428
	(1.50)	(1.41)	(1.35)	(1.02)	(1.19)	(1.16)
Fam_Ind	-1.3315**	-1.3128	-0.3264	-1.2781**	-1.3015	-0.3069
	(-2.47)	(-1.62)	(-0.33)	(-2.35)	(-1.63)	(-0.32)
F_Dual	-0.5571	-1.8904**	-1.5420	-0.4395	-1.8540**	-1.4076
	(-0.95)	(-2.39)	(-1.64)	(-0.74)	(-2.36)	(-1.50)
DualCEO	-0.7776	-0.1909	-0.2939	-0.8061	-0.2668	-0.4381
	(-1.33)	(-0.21)	(-0.28)	(-1.37)	(-0.29)	(-0.42)
Ind_Director	-0.0829***	-0.1144***	-0.1202***	-0.0773***	-0.1030***	-0.1022***
	(-4.07)	(-4.73)	(-3.70)	(-3.70)	(-4.41)	(-3.33)
Rpa	-0.9839**	-1.5856**	-1.6280**	-1.1615**	-1.8393***	-1.9586***
	(-2.12)	(-2.50)	(-2.32)	(-2.40)	(-2.85)	(-2.85)
Firmyear	0.0264**	0.0347**	0.0487**	0.0195	0.0232	0.0343*
	(2.17)	(2.00)	(2.29)	(1.54)	(1.31)	(1.73)
Pre_CAR	0.0136	0.0113	0.0134	0.0135**	0.0153*	0.0176*
	(0.81)	(0.61)	(0.58)	(2.19)	(1.88)	(1.93)
non_related	-1.4016*	-0.6135	-0.9763	-1.4486**	-0.7958	-1.2222
	(-1.97)	(-0.71)	(-0.91)	(-1.97)	(-0.90)	(-1.14)
FCF	-0.9492	2.5064	8.7749	-2.1436	0.1489	5.9526
	(-0.18)	(0.35)	(1.07)	(-0.41)	(0.02)	(0.76)
LN_MVE	-0.0985	-0.1303	0.0365	-0.0507	-0.0874	0.0625
	(-0.66)	(-0.51)	(0.14)	(-0.32)	(-0.33)	(0.24)
LN_RM	-0.3288**	-0.3617*	-0.4030*	-0.3033**	-0.2807	-0.2958
	(-2.58)	(-1.93)	(-1.68)	(-2.46)	(-1.57)	(-1.26)
Crossborder	-1.3612***	-1.6651**	-1.2291	-1.2856***	-1.5375**	-0.9508
	(-3.08)	(-2.58)	(-1.51)	(-2.89)	(-2.43)	(-1.17)
Public	2.8380*	0.7317	0.8568	2.6814*	1.2169	1.7126
	(1.87)	(0.21)	(0.33)	(1.70)	(0.31)	(0.59)
Equity	2.3623**	2.9394*	3.4303**	2.1434*	2.7923**	3.0914*
	(2.02)	(1.96)	(2.02)	(1.81)	(2.05)	(1.93)
Yr08_11	-0.8565**	-0.6738	-0.3909	-0.7176*	-0.5494	-0.3013
	(-2.07)	(-1.16)	(-0.58)	(-1.73)	(-0.95)	(-0.46)
Constant	7.3151**	6.9446	8.1988	6.4467**	5.1916	5.6935
	(2.39)	(1.57)	(1.61)	(2.11)	(1.17)	(1.11)
Observations	267	267	267	267	267	267
R-squared	0.200	0.155	0.122	0.192	0.149	0.113
Adjusted R-squared	0.142	0.0941	0.0578	0.134	0.0873	0.0483
F-Test	3.570***	3.017***	2.364***	2.965***	2.648***	1.986**
	(0.0000)	(0.0001)	(0.0018)	(0.0001)	(0.0004)	(0.0111)

The sample comprises 267 observations. The observations denote 267 corporate acquisition announcements made by 129 Malaysian family-controlled firms listed on the Main Board of Bursa across the sample period of 2002 to 2011. The reported dependent variable – CAR is regressed against the independent variables and control variables for each model from Column (1)-(6). Columns 1, 2 and 3 report the CAR that is estimated using market model. Columns 4, 5 and 6 report the CAR that is estimated from market adjusted model. The CAR denotes cumulative abnormal returns over an event window for each observation. The reported CAR estimated from both the market model and market adjusted model are cumulated over the three-day event window (-1, +1), the five-day event window (-2, +2) and the seven-day event window (-3, +3), respectively. Day 0 denotes the day of corporate acquisition announcement release. The variable *Own* denotes total family equity ownership as measured by total percentage of equity ownership in the company. The variable Own^2 denotes squared *Own*. The variable *FamilyCEO* denotes a dummy variable that equals to one when family member of the controlling family is the CEO, zero otherwise. The variable *Fam_Ind* denotes a dummy variable that equals to one when the ratio of total number of family members on the board over total number of independent directors on the board is more than 1, zero otherwise. The variable *F_Dual* denotes a dummy variable that equals to one when two related family members hold the positions of CEO and chairman, zero otherwise. The variable *DualCEO* denotes a dummy variable that equals to one when the position of CEO and chairman are both held by the same individual, zero otherwise. The variable *Ind_Director* denotes the total percentage of independent directors on the board. The variable *Rpa* denotes a dummy variable that equals to one when the acquisition is a related party corporate acquisition, zero otherwise. The variable *Firmyear* denotes the firm age of the company. The variable *Pre_CAR* denotes an acquirer's pre-announcement stock price run-up, which is measured by cumulative abnormal returns over the 200-day window (event day -210 to day -11) and is estimated using market model. The variable *non_related* denotes a dummy variable that equals to one when target is not within the same industry as the industry of the acquirer, zero otherwise. The variable *FCF* denotes free cash flow ratio, which is measured by [(Operating Income + Depreciation – Interest expense – Taxes – Preferred dividend – Common dividend) / Total Assets]. The variable *LN_MVE* denotes firm size that is measured by log of market capitalisation. The variable *LN_RM* denotes transaction size that is measured by the log of transaction dollar value of the acquisition in Malaysia Ringgit currency. The variable *Crossborder* denotes a dummy variable that equals to one for the acquisition of a non-domestic target, zero otherwise. The variable *Public* denotes a dummy variable that equals to one for acquisition of a public target, zero otherwise. The variable *Equity* denotes a dummy variable that equals to one for equity-financed acquisition, zero otherwise. The variable *Yr08_11* denotes a dummy variable that equals to one when the year of the event is during the period of 2008 to 2011, zero otherwise. The *,**, and *** stand for statistical significance based on two-wide tests at the 10%, 5%, and 1% levels, respectively. The numbers in parentheses denote the standard error.

The baseline model **Equation 5.6** is expanded by including the new variable Own^2, which follows the following equation:

$$CAR_i = \alpha_i + \beta_{i1}\ Own_i + \beta_{i2}\ Own^2_i + \beta_{i3}\ FamilyCEO_i + \beta_{i4}\ Fam\_Ind_i + \beta_{i5}\ F\_Dual_i + \beta_{i6}\ DualCEO_i + \beta_{i7}\ Ind\_Director_i + \beta_{i8}\ Rpa_i + \beta_{i9}\ Firmyear_i + \beta_{i10}\ Pre\_CAR_i + \beta_{i11}\ non\_related_i + \beta_{i12}\ FCF_i + \beta_{i13}\ LN\_MVE_i + \beta_{i14}\ LN\_RM_i + \beta_{i15}\ Crossborder_i + \beta_{i16}\ Public_i + \beta_{17}\ Equity_i + \beta_{18}\ Yr08\_11_i + \varepsilon_i$$

Equation 6.1

Equation 6.1 allows examination of *Hypothesis 2* within a controlled multivariate setting. *Hypothesis 2* predicts a nonlinear relation between family ownership and $\overline{\mathrm{CAR}}$. The squared *Own – Own*^{2}, is based on prior family firm studies (Anderson and Reeb 2003b; Isakov and Weisskopf 2014) to examine the possibilities of a nonlinear relation between family ownership and family firm value.

The results are reported in **Table 6.5** as above. Column (1)-(3) and Column (4)-(6) report the results of the multivariate regressions that regress the dependent variable $\overline{\mathrm{CAR}}$ on the explanatory variables, across the three-day event window (-1, +1), five-day event window (-2, +2) and seven-day event window (-3, +3), respectively. The dependent variable $\overline{\mathrm{CAR}}$ of Column (1)-(3) is estimated from the market model. The dependent variable $\overline{\mathrm{CAR}}$ of Column (4)-(6) is estimated from the market-adjusted model.

Results from Columns (1) and (3) support *Hypothesis 2*. Columns (1) and (3) report 5% significance level for the coefficients of the variables *Own* and *Own*^{2}. The results indicate that there is a significant nonlinear relation between family ownership and $\overline{\mathrm{CAR}}$. The inflection point[111] (or maximum family firm performance) where the beneficial effect of Malaysian family firms begins to diminish is at 46.76% (47.13%) for the market model $\overline{\mathrm{CAR}}$(+1,+1) (market adjusted model $\overline{\mathrm{CAR}}$(+1,+1)). Similar relation is also found based on the results in Columns (2) and (4), with an inflection point at 53.96% and 51.41% respectively, when generating $\overline{\mathrm{CAR}}$ across the five-day event window. The inflection point based on results of Columns (3) and (6) is at 47.25% and 45.23% respectively for the seven-day event window $\overline{\mathrm{CAR}}$. The overall results indicate Malaysian family-controlled firm performance increases until the controlling families

[111] Inflection point is calculated from the formula (- β_{i1} / β_{i2}x2), where β_{i1} and β_{i2} are the coefficients of the variables Own and Own^2 respectively in **Table 6.5**.

own close to 50% or more of the equity shareholdings in family firms. Beyond this point, performance of Malaysian family-controlled firms decline.

This finding is consistent with the result reported by Pindado et al. (2013). Study of Pindao et al. (2013) reveals that the optimal level of family ownership which maximises the value of family firms is at 51% in Switzerland. However, the results of the optimal level of family ownership concentration contrast with those documented in the study of Anderson and Reeb (2003a) for US family firms, which reports 30% as the optimal level.

The results overall imply that the controlling family owners of Malaysian family-controlled firms require close to half or more than half of the ownership in the company to maximise family firm value. Contrast to other counterparts, US family firms only need to acquire one third of the company to maximise firm value. Similar to family firms in Switzerland (Pindado et al. 2013), the controlling families in Malaysia need to own larger stakes in the family firms for an effective decision-making process. Such a difference is consistent with the past findings on the concentrated ownership level of Asian families, in comparison with their counterparts from developed countries (Carney and Child 2012; La Porta et al. 1999). Concentrated level of family ownership is especially necessary for Asian family firms. Concentrated family ownership is an internal control mechanism, which serves as a substitute for scarce institutional governance mechanisms (Lins 2003). Controlling family owners, while filling up these monitoring roles to overcome the lack of investor protection system, also reduce their incentives for expropriations, leading to increase in firm value (Lins 2003; Denis and McConnell 2003).

Based on these results in **Table 6.5** as presented in this section, further light is shed on the conflicting theoretical predictions[112] of the effect of concentrated family ownership

[112] This has been discussed in Chapter 3, Section 3.2 on *Interest Alignment Hypothesis* and *Expropriation Hypothesis*.

on family firm value. These overall findings imply that Malaysian family-controlled firms are associated with better firm value with the increase of family ownership. This supports the notion of *interest alignment hypothesis.* Few inherent features of family firms [113] (ownership and managerial role) naturally mitigate the conflict of interests between the principals and the agents, leading to the alignment of interest between both parties (Dalton et al. 2007; Shleifer and Vishny 1997; Agrawal and Knoeber 2012; La Porta et al. 2000). However, results also indicate that when family ownership reaches a certain concentrated level, the relation between family ownership and family firm value becomes inversely related. In this case, family opportunism increases with the increasing family ownership (Maury 2006). This finding is also consistent with past findings which showed a nonlinear relation between family ownership and family firm value for family firms from the developed economies (Anderson and Reeb 2003c; Kowalewski et al. 2010; Ben-Amar and André 2006; Pindado et al. 2013; Isakov and Weisskopf 2014).

Overall, the findings provide few implications. First, the results enhance our understanding of the behavioural differences among family owners in an emerging economy. These create awareness among policy makers that findings in one country may not necessarily be applicable to another country. Policy makers need to be aware that when applying new policies (or even planning to), supporting facts from country-specific research and evidence need to be taken into consideration. Second, the findings also provide important contributions to the conflicting theoretical argument of Agency Problem I and Agency Problem II within the context of Malaysian family-controlled firms. Findings reveal that within the context of Malaysia, increasing family ownership is beneficial to family firms and the shareholders. However, when Malaysian family owners obtain highly concentrated ownership (close to 50% or more in ownership stake), entrenchment behaviour from the family owners emerge. Third, the findings reveal an important policy implication for Malaysia policy makers. The concentrated level of family ownership stake in publicly listed firms in Malaysia needs

[113] As discussed in Chapter 3, Section 3.2.1 on family's incentives to monitor, family's long-term goal, wealth transfer through generations, family sustainable competitive advantage, and family reputations, which are tied to well-being of family-controlled firms.

to be restricted. Evidence reveals that concentrated family ownership in Malaysian family-controlled firms is recommended to be capped at 50% for optimum firm performance. Fourth, findings in Section 6.2 and Section 6.5.2 overall suggest that the establishment of an organizational form such as the family-controlled firm in Malaysia should be encouraged. Results documented that Malaysian family-controlled firms, in general, perform value-enhancing corporate acquisitions, which benefit the shareholders of the family firms. However, a restriction should be imposed on the family ownership stakes in Malaysian family-controlled firms, which should not exceed 50%.

6.5.3 Robustness Analysis

To ensure the results are robust, the model as specified in **Equation 6.1** is re-estimated using robust regression technique (the iterative weighted least squares technique as discussed in Chapter 5). As mentioned in Chapter 5 Methodology, robust regression can help justify the use of ordinary least squares results (Verardi and Croux 2009). Results for the robust regression run on **Equation 6.1** are reported in **Table 6.6** as below.

Table 6.6 reports the results generated from **Equation 6.1** using robust regressions. Column (1)-(3) and Column (4)-(6) report the results of the robust regressions that regress the dependent variable $\overline{\mathrm{CAR}}$ on the explanatory variables, across the three-day event window (-1, +1), five-day event window (-2, +2) and seven-day event window (-3, +3), respectively. The dependent variable $\overline{\mathrm{CAR}}$ of Column (1)-(3) is estimated from the market model. The dependent variable $\overline{\mathrm{CAR}}$ of Column (4)-(6) is estimated from the market-adjusted model.

Table 6.6
Robust Regression of Malaysian Family-Controlled Acquirers Cumulative Abnormal Returns (CAR)

$CAR_i = \alpha_i + \beta_{i1}\ Own_i + \beta_{i2}\ Own^2_i + \beta_{i3}\ FamilyCEO_i + \beta_{i4}\ Fam\_Ind_i + \beta_{i5}\ F\_Dual_i + \beta_{i6}\ DualCEO_i + \beta_{i7}\ Ind\_Director_i + \beta_{i8}\ Rpa_i + \beta_{i9}\ Firmyear_i + \beta_{i10}\ Pre\_CAR_i + \beta_{i11}\ non\_related_i + \beta_{i12}\ FCF_i + \beta_{i13}\ LN\_MVE_i + \beta_{i14}\ LN\_RM_i + \beta_{i15}\ Crossborder_i + \beta_{i16}\ Public_i + \beta_{17}\ Equity_i + \beta_{18}\ Yr08\_11_i + \varepsilon_i$

	Market Model			Market Adjusted Model		
	(1)	(2)	(3)	(4)	(5)	(6)
$\overline{CAR}$	(-1,+1)	(-2,+2)	(-3,+3)	(-1,+1)	(-2,+2)	(-3,+3)
Own	0.1761**	0.0545	0.0530	0.1842**	0.0200	0.1218
	(2.10)	(0.45)	(0.39)	(2.22)	(0.17)	(0.99)
Own^2	-0.0017**	-0.0004	-0.0005	-0.0018**	-0.0000	-0.0012
	(-2.00)	(-0.29)	(-0.38)	(-2.09)	(-0.03)	(-0.95)
FamilyCEO	1.0296*	1.8635**	1.4632	0.8203	1.5911*	1.5483*
	(1.76)	(2.22)	(1.56)	(1.41)	(1.91)	(1.79)
Fam_Ind	-0.9122**	-1.0656	0.2246	-0.9322**	-1.0408	0.2078
	(-2.01)	(-1.64)	(0.31)	(-2.06)	(-1.61)	(0.31)
F_Dual	-0.7649	-1.7409**	-1.9352**	-0.6854	-1.8246***	-2.2783***
	(-1.56)	(-2.48)	(-2.47)	(-1.42)	(-2.64)	(-3.17)
DualCEO	-0.3720	-0.5065	-0.6914	-0.3225	-0.7315	-0.9233
	(-0.76)	(-0.73)	(-0.89)	(-0.67)	(-1.06)	(-1.29)
Ind_Director	-0.0803***	-0.1064***	-0.0801**	-0.0765***	-0.0969***	-0.0595**
	(-4.12)	(-3.81)	(-2.57)	(-3.95)	(-3.51)	(-2.07)
Rpa	-0.3753	-0.8020	-0.4747	-0.5733	-0.9615*	-0.5725
	(-0.92)	(-1.37)	(-0.73)	(-1.41)	(-1.66)	(-0.95)
Firmyear	0.0348***	0.0372**	0.0569***	0.0335***	0.0204	0.0370**
	(3.06)	(2.28)	(3.12)	(2.96)	(1.27)	(2.21)
Pre_CAR	0.0020	-0.0014	0.0113	0.0091**	0.0078	0.0061
	(0.18)	(-0.09)	(0.62)	(2.11)	(1.25)	(0.94)
non_related	-0.9879*	-0.6436	-0.4379	-0.8572	-0.6945	-0.5691
	(-1.76)	(-0.80)	(-0.49)	(-1.54)	(-0.87)	(-0.69)
FCF	0.9226	6.6745	9.6863	-0.9983	5.3927	4.9803
	(0.21)	(1.07)	(1.39)	(-0.23)	(0.87)	(0.77)
LN_MVE	-0.0903	-0.0598	-0.0133	-0.0709	0.1266	0.0472
	(-0.67)	(-0.31)	(-0.06)	(-0.53)	(0.66)	(0.24)
LN_RM	-0.2670**	-0.2162	-0.2340	-0.2122*	-0.1604	-0.1746
	(-2.35)	(-1.33)	(-1.29)	(-1.88)	(-0.99)	(-1.04)
Crossborder	-0.9877**	-1.0657*	-0.7602	-0.9020**	-0.9091	-0.6172
	(-2.48)	(-1.87)	(-1.19)	(-2.28)	(-1.61)	(-1.05)
Public	2.5155*	4.2225**	0.7333	2.0995	2.7191	2.0227
	(1.87)	(2.19)	(0.34)	(1.57)	(1.43)	(1.02)
Equity	1.8370*	2.6198*	3.4771**	1.5096	2.5659*	3.5178**
	(1.78)	(1.77)	(2.10)	(1.47)	(1.75)	(2.31)
Yr08_11	-0.5901*	-0.6158	-0.1976	-0.4496	-0.3587	0.0128
	(-1.67)	(-1.22)	(-0.35)	(-1.28)	(-0.72)	(0.02)
Constant	4.9378	6.6101	4.2452	3.5743	3.2401	0.5426
	(1.64)	(1.54)	(0.88)	(1.20)	(0.76)	(0.12)
Observations	267	267	267	267	267	267
R-squared	0.184	0.142	0.116	0.171	0.124	0.110
Adjusted R-squared	0.124	0.0797	0.0519	0.111	0.0607	0.0452
F-Test	3.098***	2.280***	1.809**	2.851***	1.956**	1.699**
	(0.0000)	(0.0027)	(0.0248)	(0.0001)	(0.0127)	(0.0399)

The sample comprises 267 observations. The observations denote 267 corporate acquisition announcements made by 129 Malaysian family-controlled firms listed on the Main Board of Bursa across the sample period of 2002 to 2011. The reported dependent variable – CAR is regressed against the independent variables and control variables for each model from Column (1)-(6). Columns 1, 2 and 3 report the CAR that is estimated using market model. Columns 4, 5 and 6 report the CAR that is estimated from market adjusted model. The CAR denotes cumulative abnormal returns over an event window for each observation. The reported CAR estimated from both the market model and market adjusted model are cumulated over the three-day event window (-1, +1), the five-day event window (-2, +2) and the seven-day event window (-3, +3), respectively. Day 0 denotes the day of corporate acquisition announcement release. The variable *Own* denotes total family equity ownership as measured by total percentage of equity ownership in the company. The variable Own^2 denotes squared *Own*. The variable *FamilyCEO* denotes a dummy variable that equals to one when family member of the controlling family is the CEO, zero otherwise. The variable *Fam_Ind* denotes a dummy variable that equals to one when the ratio of total number of family members on the board over total number of independent directors on the board is more than 1, zero otherwise. The variable *F_Dual* denotes a dummy variable that equals to one when two related family members hold the positions of CEO and chairman, zero otherwise. The variable *DualCEO* denotes a dummy variable that equals to one when the position of CEO and chairman are both held by the same individual, zero otherwise. The variable *Ind_Director* denotes the total percentage of independent directors on the board. The variable *Rpa* denotes a dummy variable that equals to one when the acquisition is a related party corporate acquisition, zero otherwise. The variable *Firmyear* denotes the firm age of the company. The variable *Pre_CAR* denotes an acquirer's pre-announcement stock price run-up, which is measured by cumulative abnormal returns over the 200-day window (event day -210 to day -11) and is estimated using market model. The variable *non_related* denotes a dummy variable that equals to one when target is not within the same industry as the industry of the acquirer, zero otherwise. The variable *FCF* denotes free cash flow ratio, which is measured by [(Operating Income + Depreciation – Interest expense – Taxes – Preferred dividend – Common dividend) / Total Assets]. The variable *LN_MVE* denotes firm size that is measured by log of market capitalisation. The variable *LN_RM* denotes transaction size that is measured by the log of transaction dollar value of the acquisition in Malaysia Ringgit currency. The variable *Crossborder* denotes a dummy variable that equals to one for the acquisition of a non-domestic target, zero otherwise. The variable *Public* denotes a dummy variable that equals to one for acquisition of a public target, zero otherwise. The variable *Equity* denotes a dummy variable that equals to one for equity-financed acquisition, zero otherwise. The variable *Yr08_11* denotes a dummy variable that equals to one when the year of the event is during the period of 2008 to 2011, zero otherwise. The *,**, and *** stand for statistical significance based on two-wide tests at the 10%, 5%, and 1% levels, respectively. The numbers in parentheses denote the standard error.

Results in Columns (1) and (3) again support *Hypothesis 2,* which states there is a nonlinear relation between family ownership and $\overline{\mathrm{CAR}}$. Columns (1) and (3) report 5% significance level for the coefficients of *Own* and Own^2 respectively, consistent with earlier results in **Table 6.5** above. The results indicate that there is a significant nonlinear relation between family ownership and $\overline{\mathrm{CAR}}$.

The analysis is repeated using piecewise linear regression (Morck et al. 1988) to further investigate the nonlinear relation between family ownership and family firm value in support of *Hypothesis 2*. *Hypothesis 2* hypothesises that there is a significant nonlinear relation between family ownership and $\overline{\mathrm{CAR}}$. This provides further robust affirmation on the nonlinear relation between family ownership and family firm value.

The piecewise linear regression is estimated using the explanatory variables of **Equation 5.6**. The variable *Own* is excluded from the explanatory variables of **Equation 5.6** and is replaced by two new variables — *Own≤50%* and *Own>50%*, which follows the following equation:

$$CAR_i = \alpha_i + \beta_{i1}\ Own{\leq}50\%_i + \beta_{i2}\ Own{>}50\%_i + \beta_{i3}\ FamilyCEO_i + \beta_{i4}\ Fam\_Ind_i + \beta_{i5}\ F\_Dual_i + \beta_{i6}\ DualCEO_i + \beta_{i7}\ Ind\_Director_i + \beta_{i8}\ Rpa_i + \beta_{i9}\ Firmyear_i + \beta_{i10}\ Pre\_CAR_i + \beta_{i11}\ non\_related_i + \beta_{i12}\ FCF_i + \beta_{i13}\ LN\_MVE_i + \beta_{i14}\ LN\_RM_i + \beta_{i15}\ Crossborder_i + \beta_{i16}\ Public_i + \beta_{17}\ Equity_i + \beta_{18}\ Yr08\_11_i + \varepsilon_i$$

Equation 6.2

The piecewise linear regression — **Equation 6.2** is estimated for the dependent variable $\overline{\mathrm{CAR}}$. For results sensitivity, the $\overline{\mathrm{CAR}}$ is estimated from both the market model and

market-adjusted model, across the examined event windows. The new variables *Own<50%* and *Own≥50%* allow change of slopes at 50%. The cut-off point at 50% family ownership is used based on the overall estimates of the nonlinear relation between family ownership and $\overline{\mathrm{CAR}}$ reported in **Table 6.6** above. The following new variables are used to estimate and report the results of piecewise linear regressions:

Own≤50%	= family ownership	if family ownership ≤ 50%; and
	= 50	if family ownership > 50%
Own>50%	= 0	if family ownership ≤ 50%; and
	= (family ownership – 50)	if family ownership > 50%

Results are reported in **Table 6.7** as below. Results from Columns (1) and (3) again support *Hypothesis 2,* which states there is a nonlinear relation between family ownership and $\overline{\mathrm{CAR}}$. Columns (1) and (3) report 5% significance level for the coefficient of *Own<50%* and *Own≥50%,* respectively. The results indicate that there is a significant nonlinear relation between family ownership and $\overline{\mathrm{CAR}}$. The benefits of concentrated family ownership taper off when family ownership reaches a concentrated level of equity shareholdings in Malaysian family-controlled firms.

In general, the reported findings of **Table 6.5**, **Table 6.6** and **Table 6.7** provide weak support to *Hypothesis 2*. Results show that the reported nonlinear relation between family ownership and $\overline{\mathrm{CAR}}$ does not remain significant over other examined event windows in column (2), (3), (5) and (6) of **Table 6.5**, **Table 6.6** and **Table 6.7**, respectively.

Table 6.7

Non-Linearity Between Malaysian Family-Controlled Acquirers Cumulative Abnormal Returns (CAR) and Family Ownership: Piecewise Regression Model

$CAR_i = \alpha_i + \beta_{i1}$ Own<50%$_i$ + β_{i2} Own≥50%$_i$ + β_{i3} FamilyCEO$_i$ + β_{i4} Fam_Ind$_i$ + β_{i5} F_Dual$_i$ + β_{i6} DualCEO$_i$ + β_{i7} Ind_Director$_i$ + β_{i8} Rpa$_i$ + β_{i9} Firmyear$_i$ + β_{i10} Pre_CAR$_i$ + β_{i11} non_related$_i$ + β_{i12} FCF$_i$ + β_{i13} LN_MVE$_i$ + β_{i14} LN_RM$_i$ + β_{i15} Crossborder$_i$ + β_{i16} Public$_i$ + β_{17} Equity$_i$ + β_{18} Yr08_11$_i$ + ε_i

	Market Model			Market Adjusted Model		
	(1)	(2)	(3)	(4)	(5)	(6)
$\overline{CAR}$	(-1,+1)	(-2,+2)	(-3,+3)	(-1,+1)	(-2,+2)	(-3,+3)
Own ≤ 50%	0.0411	0.0833*	0.0221	0.0343	0.0748	0.0198
	(1.25)	(1.79)	(0.45)	(1.03)	(1.61)	(0.40)
Own > 50%	-0.0641**	-0.0530	-0.0384	-0.0637**	-0.0506	-0.0384
	(-2.13)	(-0.99)	(-0.67)	(-2.03)	(-0.88)	(-0.67)
FamilyCEO	1.0684	1.4444	1.3575	0.7726	1.2928	1.1564
	(1.50)	(1.41)	(1.33)	(1.03)	(1.21)	(1.17)
Fam_Ind	-1.3008**	-1.2747	-0.3154	-1.2428**	-1.2542	-0.2834
	(-2.43)	(-1.59)	(-0.32)	(-2.30)	(-1.58)	(-0.30)
F_Dual	-0.5602	-1.8941**	-1.5426	-0.4484	-1.8662**	-1.4139
	(-0.96)	(-2.40)	(-1.64)	(-0.76)	(-2.38)	(-1.51)
DualCEO	-0.7867	-0.2044	-0.3068	-0.8108	-0.2706	-0.4383
	(-1.35)	(-0.22)	(-0.30)	(-1.38)	(-0.29)	(-0.42)
Ind_Director	-0.0843***	-0.1162***	-0.1207***	-0.0788***	-0.1050***	-0.1032***
	(-4.15)	(-4.86)	(-3.73)	(-3.79)	(-4.55)	(-3.38)
Rpa	-1.0197**	-1.6336**	-1.6555**	-1.1867**	-1.8694***	-1.9710***
	(-2.17)	(-2.57)	(-2.35)	(-2.42)	(-2.89)	(-2.86)
Firmyear	0.0258**	0.0340*	0.0483**	0.0189	0.0225	0.0339*
	(2.11)	(1.96)	(2.27)	(1.48)	(1.26)	(1.71)
Pre_CAR	0.0151	0.0132	0.0140	0.0138**	0.0157*	0.0178*
	(0.90)	(0.69)	(0.61)	(2.23)	(1.92)	(1.95)
non_related	-1.3934*	-0.6024	-0.9693	-1.4438*	-0.7905	-1.2203
	(-1.95)	(-0.70)	(-0.90)	(-1.96)	(-0.90)	(-1.14)
FCF	-1.0020	2.4113	8.6282	-2.1375	0.1883	5.9926
	(-0.19)	(0.33)	(1.06)	(-0.41)	(0.03)	(0.76)
LN_MVE	-0.0885	-0.1182	0.0384	-0.0400	-0.0725	0.0702
	(-0.59)	(-0.47)	(0.15)	(-0.26)	(-0.27)	(0.26)
LN_RM	-0.3290**	-0.3615*	-0.4011*	-0.3051**	-0.2836	-0.2975
	(-2.57)	(-1.92)	(-1.67)	(-2.45)	(-1.58)	(-1.27)
Crossborder	-1.4044***	-1.7211***	-1.2540	-1.3242***	-1.5868**	-0.9736
	(-3.14)	(-2.65)	(-1.54)	(-2.94)	(-2.49)	(-1.19)
Public	2.7502*	0.6188	0.8096	2.5898	1.0983	1.6565
	(1.72)	(0.17)	(0.30)	(1.56)	(0.26)	(0.55)
Equity	2.3147**	2.8810*	3.4167**	2.0865*	2.7151**	3.0524*
	(1.98)	(1.96)	(2.03)	(1.76)	(2.04)	(1.92)
Yr08_11	-0.8765**	-0.6992	-0.4000	-0.7364*	-0.5742	-0.3133
	(-2.11)	(-1.21)	(-0.60)	(-1.76)	(-0.99)	(-0.48)
Constant	9.9934***	10.3420***	9.4258**	9.1517***	8.7532**	7.4156*
	(3.67)	(2.75)	(2.09)	(3.29)	(2.29)	(1.65)
Observations	267	267	267	267	267	267
R-squared	0.198	0.154	0.122	0.190	0.146	0.112
Adjusted R-squared	0.140	0.0929	0.0581	0.131	0.0842	0.0476
F-Test	3.560***	3.063***	2.360***	2.943***	2.669***	1.992***
	(0.0000)	(0.0000)	(0.0018)	(0.0001)	(0.0004)	(0.0108)

The sample comprises 267 observations. The observations denote 267 corporate acquisition announcements made by 129 Malaysian family-controlled firms listed on the Main Board of Bursa across the sample period of 2002 to 2011. The reported dependent variable – CAR is regressed against the independent variables and control variables for each model from Column (1)-(6). Columns 1, 2 and 3 report the CAR that is estimated using market model. Columns 4, 5 and 6 report the CAR that is estimated from market adjusted model. The CAR denotes cumulative abnormal returns over an event window for each observation. The reported CAR estimated from both the market model and market adjusted model are cumulated over the three-day event window (-1, +1), the five-day event window (-2, +2) and the seven-day event window (-3, +3), respectively. Day 0 denotes the day of corporate acquisition announcement release. The variable *Own ≤ 50%* equals family ownership if family ownership ≤ 50%; and equals 50 if family ownership > 50%. The variable *Own>50% equals* 0 if family ownership ≤ 50%; and equals family ownership minus 50 if family ownership > 50%. The term family ownership denotes total family equity ownership as measured by total percentage of equity ownership in the company. The variable *FamilyCEO* denotes a dummy variable that equals to one when family member of the controlling family is the CEO, zero otherwise. The variable *Fam_Ind* denotes a dummy variable that equals to one when the ratio of total number of family members on the board over total number of independent directors on the board is more than 1, zero otherwise. The variable *DualCEO* denotes a dummy variable that equals to one when the position of CEO and chairman are both held by the same individual, zero otherwise. The variable *Ind_Director* denotes the total percentage of independent directors on the board. The variable *Rpa* denotes a dummy variable that equals to one when the acquisition is a related party corporate acquisition, zero otherwise. The variable *Firmyear* denotes the firm age of the company. The variable *Pre_CAR* denotes an acquirer's pre-announcement stock price run-up, which is measured by cumulative abnormal returns over the 200-day window (event day -210 to day -11) and is estimated using market model. The variable *non_related* denotes a dummy variable that equals to one when target is not within the same industry as the industry of the acquirer, zero otherwise. The variable *FCF* denotes free cash flow ratio, which is measured by [(Operating Income + Depreciation – Interest expense – Taxes – Preferred dividend – Common dividend) / Total Assets]. The variable *LN_MVE* denotes firm size that is measured by log of market capitalisation. The variable *LN_RM* denotes transaction size that is measured by the log of transaction dollar value of the acquisition in Malaysia Ringgit currency. The variable *Crossborder* denotes a dummy variable that equals to one for the acquisition of a non-domestic target, zero otherwise. The variable *Public* denotes a dummy variable that equals to one for acquisition of a public target, zero otherwise. The variable *Equity* denotes a dummy variable that equals to one for equity-financed acquisition, zero otherwise. The variable *Yr08_11* denotes a dummy variable that equals to one when the year of the event is during the period of 2008 to 2011, zero otherwise. The *,**, and *** stand for statistical significance based on two-wide tests at the 10%, 5%, and 1% levels, respectively. The numbers in parentheses denote the standard error.

6.6 H3 Family Management Regime: Family CEO and Professional CEO

6.6.1 Univariate Analysis

Table 6.8

Announcement Period Mean Cumulative Abnormal Returns for Malaysian Family-Controlled Firms for Subsamples Categorised by Family Management Regime

The sample comprises mean cumulative abnormal returns ($\overline{CAR}$) from the sample 267 corporate acquisition announcements of 129 Malaysian family-controlled firms. The 267 corporate acquisition announcements are categorised by announcements with acquirers under the management of family CEO and professional CEO, across the sample period 2002 to 2011. The term *Family CEO* denotes that the CEO positions of the acquirers are held by family members of the controlling family. The term *Professional CEO* denotes that the CEO positions of the acquirers are held by professionals who are not family-related to the controlling family. The term *Founder CEO* denotes that the CEO positions of the acquirers are held by founders. The term *Descendant CEO* denotes that the CEO positions of the acquirers are held by the descendants of the controlling family. The average $\overline{CAR}$ of each categorised corporate acquisition announcement is expressed in percentage of returns. *N* and *%* of Column 1 report the frequencies and percentage of the categorised sample corporate acquisition announcements, respectively. Columns 2, 3 and 4 display the average $\overline{CAR}$ estimated using the market model. Columns 5, 6 and 7 present the average $\overline{CAR}$ estimated from the market adjusted model. The $\overline{CAR}$ is reported over the three-day event window (-1,+1), the five-day event window (-2, +2) and the seven-day event window (-3,+3). The statistical test employs Kolari and Pynnonen's (2011) generalised rank test (GRANK) to examine if $\overline{CAR}$ are significantly different from zero. The numbers in parentheses denote the standard error. *,**, and *** stand for statistical significance of GRANK at the 10%, 5%, and 1% level respectively.

	N (%)	Market Model CAR			Market Adjusted Model CAR		
$\overline{CAR}$		(-1,+1)	(-2,+2)	(-3,+3)	(-1,+1)	(-2,+2)	(-3,+3)
Samples grouped by Family CEO or Professional CEO							
Family CEO	224 (84%)	0.5005** (2.2386)	0.7610*** (2.8367)	0.9272*** (3.2672)	0.6377** (2.5161)	1.0609*** (3.4826)	1.3558*** (3.7242)
Professional CEO	43 (16%)	-0.0008 (0.0744)	-0.2550 (0.3860)	-0.3883 (0.3919)	0.4051 (0.2373)	0.3103 (0.4969)	0.3692 (0.3603)
Total	267 (100%)						

Table 6.8 tabulates the announcement-period mean cumulative abnormal returns ($\overline{\mathrm{CAR}}$) for the 267 sample corporate acquisition announcements over the period 2002 to 2011, which are grouped according to different family management regimes in Malaysian family-controlled firms. Results of **Table 6.8** provide preliminary evidence of the relation between different family management regimes and announcement period

$\overline{\text{CAR}}$. This also allows *prima facie* evidence on the testing of *Hypothesis 3*. The announcement period ($\overline{\text{CAR}}$) for the Malaysian family-controlled acquirers are reported over the three-day event window (-1, +1), five-day event window (-2, +2) and seven-day event window (-3, +3) and are represented by $\overline{\text{CAR}}(-1,+1)$, $\overline{\text{CAR}}(-2,+2)$ and $\overline{\text{CAR}}(-3,+3)$, respectively.

Table 6.8 tabulates $\overline{\text{CAR}}$ according to two groups: the Malaysian family-controlled acquirers are managed by family CEO or non-family-related professional CEO. Family CEO infers that the CEO positions of the Malaysian family-controlled acquirers are held by family members of the controlling family owners. Non-family-related professional CEO infers that the CEO positions of the Malaysian family-controlled acquirers are held by professionals who are not family-related to the controlling family owners. **Table 6.8** reveals that, overall, there are significant positive relation between family management (as measured by *Family CEO*) and the announcement-period wealth effect of corporate acquisitions (as measured by $\overline{\text{CAR}}$). When Malaysian family-controlled acquirers are managed by a CEO who is family-related to the controlling family owners, the significance of the market model (market-adjusted model) $\overline{\text{CAR}}(-1,+1)$ is at 5% (5%) with an average of 0.50% (0.64%) cumulated abnormal returns over Day-1 to Day+1[114]. The significance of the announcement effect remains the same across different event windows for both $\overline{\text{CAR}}$ that are measured by the market model and market-adjusted model.

Table 6.8 also reveals the significance of positive announcement wealth effect experienced by Malaysian family-controlled acquirers diminishes when Malaysian family-controlled acquirers are managed by a CEO, who is not family-related to the controlling family. There is a mixture of positive or negative average cumulated abnormal returns ($\overline{\text{CAR}}$) across various event windows, for both $\overline{\text{CAR}}$s that are generated from the market model or market-adjusted model.

[114] Day 0 is the day the announcement is released.

Results from **Table 6.8** provide preliminary evidence supporting *Hypothesis 3* that there is a positive relation between family CEO and wealth effect of corporate acquisition announcements experienced by Malaysian family-controlled firms. The result also supports the advocate of agency theory. Advocate of agency theory argues that family CEOs are beneficial to increasing family firm value. This is attributed to the fact that family members are able to exchange their knowledge and skills from different dimensions with one another over a long horizon, which leads to better monitoring and disciplining (Fama and Jensen 1983b). In comparison with professional managers, family CEO also has better access to resources, which can be acquired through informal and private networks (such as business groups). This is especially the case for family firms of emerging economies with weak market-supporting institutional settings, where access to resources is often not through normal channels (such as banks) (Peng and Jiang 2010). Empirical evidence supports the beneficial effect of active family management through the role of CEO on family firm value (Maury 2006; Sraer and Thesmar 2007).

However, results in **Table 6.8** is inconsistent with the studies that documented the negative impact of family CEO on family firm value, for the case of Danish family firms (Bennedsen et al. 2007). This is also inconsistent with another notion that transgenerational control of ownership and management may be detrimental to the long-term prosperity of family-controlled firms (Chrisman et al. 2012; Schulze et al. 2003). Particularly, the altruistic behaviour of family owners or the *Fredo effect* (Kidwell et al. 2013) may be detrimental to the company when incompetent family members are chosen to take over the management position (Chua et al. 2009; Anderson and Reeb 2004; Bertrand and Schoar 2006). When corporate control transfers from highly able entrepreneurs to the next generation, the heirs are likely to be less competent than their successors (Morck and Yeung 2003). Similar arguments have been offered. When the strategic goal of the controlling families is to continue maintain the company under family control instead of transferring control to professional outsider managers, successions in the management of family-controlled firms are less effective (Burkart et al. 2003; Chua et al. 2009; Cucculelli and Micucci 2008; Smith and Amoako-Adu 1999).

6.6.2 Multivariate Analysis

The baseline regression results in **Section 6.3.1** (**Table 6.2)** indicate a weak significant positive relation between *FamilyCEO* and $\overline{\mathrm{CAR}}$ across different event windows and measures of $\overline{\mathrm{CAR}}$. The significance of the positive relation between *FamilyCEO* and $\overline{\mathrm{CAR}}$ does not stay persistent for $\overline{\mathrm{CAR}}$ that are estimated from the market-adjusted model. There is an overall weak support for *Hypothesis 3*. *Hypothesis 3* hypothesises a positive relation between family CEO and $\overline{\mathrm{CAR}}$. Results in **Section 6.3.1** (**Table 6.2)** provide weak support for the beneficial effect of family management on family firm value. The insignificant relation between *FamilyCEO* and $\overline{\mathrm{CAR}}$ can be an artefact of no consideration due to the effect of founder CEO or the descendant CEO. As discussed in Chapter 2 and Chapter 3, one of the specific features of family firms is the holding of CEO position by either the founder or the descendant, other than by the professional CEO (who is not family related to the controlling family owners). This family-specific feature is commonly observable in Malaysian family-controlled firms. Hence, further investigation is performed to delve deeper into the relation between this family-specific management feature (founder-CEO or descendant-CEO) and $\overline{\mathrm{CAR}}$ in subsection 6.7.

6.6.3 Robustness Analysis

As mentioned in Chapter 5 Methodology, robust regression can help justify the use of ordinary least squares results (Verardi and Croux 2009). When robust regression results are similar to those of ordinary least squares, there is a reassurance that results of the ordinary least squares are not influenced by the outliers (Abell et al. 1999). The *robust* regression results in **Section 6.3.3** (**Table 6.3)** again provide weak support for *Hypothesis 3*. The significance of the positive relation between *FamilyCEO* and $\overline{\mathrm{CAR}}$ does not stay persistent for $\overline{\mathrm{CAR}}$ that are either estimated from the market model or market-adjusted model across different event windows.

6.7 H4 and H5 Family Management Regime: Founder CEO and Descendant CEO

6.7.1 Univariate Analysis

Table 6.9

Announcement Period Mean Cumulative Abnormal Returns for Malaysian Family-Controlled Firms for Subsamples Categorised by Family Management Regime

The sample comprises mean cumulative abnormal returns ($\overline{CAR}$) from the sample 267 corporate acquisition announcements of 129 Malaysian family-controlled firms. The 267 corporate acquisition announcements are categorised by announcements with acquirers under the management of family CEO and professional CEO, across the sample period 2002 and 2011. The term *Founder CEO* denotes family CEO who is the founder. The term *Descendant CEO* denotes family CEO who is the descendant. The average $\overline{CAR}$ of each categorised corporate acquisition announcement is expressed in percentage of returns. *N* and *%* of Column 1 report the frequencies and percentage of the categorised sample corporate acquisition announcements, respectively. Columns 2, 3 and 4 display the average $\overline{CAR}$ estimated using the market model. Columns 5, 6 and 7 present the average $\overline{CAR}$ estimated from the market adjusted model. The $\overline{CAR}$ is reported over the three-day event window (-1,+1), the five-day event window (-2, +2) and the seven-day event window (-3,+3). The statistical test employs Kolari and Pynnonen's (2011) generalised rank test (GRANK) to examine if $\overline{CAR}$ are significantly different from zero. The numbers in parentheses denote the standard error. *,**, and *** stand for statistical significance of GRANK at the 10%, 5%, and 1% level respectively.

	N (%)	Market Model CAR			Market Adjusted Model CAR		
$\overline{CAR}$		(-1,+1)	(-2,+2)	(-3,+3)	(-1,+1)	(-2,+2)	(-3,+3)
Samples grouped by Family CEO: Founder CEO or Descendant CEO							
Founder CEO	125	0.5815**	0.9119***	0.9122***	0.7644***	1.3244***	3.7379***
	(56%)	(2.3918)	(3.0326)	(3.0981)	(2.6444)	(3.7379)	(3.3558)
Descendant CEO	98	0.4142	0.5985	0.9715	0.5001	0.7662	1.3650**
	(44%)	(0.8139)	(1.0214)	(1.5618)	(1.0068)	(1.2412)	(2.0013)
Total	223[115]						

Table 6.9 tabulates $\overline{\text{CAR}}$ according to two groups: (i) Malaysian family-controlled acquirers that are managed by family CEO who is the founder; and (ii) Malaysian family-controlled acquirers that are managed by family CEO who is the descendant.

[115] There is one observation of corporate acquisition announcements of Malaysian family-controlled firms that were under the active management of the controlling family via the CEO position. However, it was neither the founder nor the descendant who took the role of CEO. The CEO position was held by the brother of the founder. The sample corporate acquisition announcement was on 30 August 2006, which was performed by Classic Scenic Bhd.

Results show preliminary support for the positive relation between founder CEO and firm value. When Malaysian family-controlled acquirers are managed by a CEO who is the founder, the significance of the market model (market-adjusted model) $\overline{\mathrm{CAR}}(-1,+1)$ is at 5% (1%) with an average of 0.58% (0.76%) cumulated abnormal returns over Day-1 to Day+1, where Day 0 is the day the announcement is released. The $\overline{\mathrm{CAR}}$ remains significant in other examined event windows for both measures of $\overline{\mathrm{CAR}}$ (from market model and market-adjusted model). The significance of the market model (market-adjusted model) $\overline{\mathrm{CAR}}(-3,+3)$ is at 1% (1%) with an average of 0.91% (3.74%) cumulated abnormal returns over Day-3 to Day+3.

This is consistent with past findings on the positive effect of founder on firm value (Adams et al. 2009; Anderson and Reeb 2003b; Villalonga and Amit 2006).[116] Founders add value to the company corollary to their specialised knowledge, long-term ownership and non-pecuniary ties to the company in terms of reputational and emotional ties (James 1999; Demsetz and Lehn 1985). Additionally, founder is inherently a careful steward of the company. The inherent incentive to monitor the business closely is due to the great deal of their fortune and family future prosperity invested in the company (Anderson and Reeb 2003b; Villalonga and Amit 2006). The investment behaviour of founder which differs from others may be one of the artefacts inducing good performance of the family firm. Specifically, a study found that founder prefers investment with high risk and high return (Block 2012). Overall, **Table 6.9** provides preliminary evidence supporting *Hypothesis 4* that there is a positive relation between founder CEO and wealth effect of corporate acquisition announcements experienced by Malaysian family-controlled firms.

[116] Other than the documented founder effect for the US and Canada, founder effect is also reported for family firms in Germany (Andres 2008), Italy (Cucculelli and Micucci 2008), Japan (Saito 2008) and France (Sraer and Thesmar 2007).

Table 6.9 also reports support for the positive relation between descendant CEO and firm value for *Hypothesis 5*. When the CEO of Malaysian family-controlled firms is the descendant, **Table 6.9** reports positive $\overline{\mathrm{CAR}}$ across all the event windows for both the market-model estimated $\overline{\mathrm{CAR}}$ and market-adjusted-model estimated $\overline{\mathrm{CAR}}$. The relation between descendant CEO and $\overline{\mathrm{CAR}}$ is positive, but insignificant in many instances as shown in **Table 6.9**. The preliminary evidence provides insight into answering current unwavering issues in family firms concerning whether to pass ownership (or managerial role) to descendants or to the professional outsiders (Deloitte Growth Enterprise Services 2013; Poutziouris et al. 2013; KPMG 2011; PricewaterhouseCoopers 2012). However, it is still too early to make any inferences without controlling the effect of other factors within a multivariate setting.

6.7.2 Multivariate Analysis

Table 6.10
Regression of Malaysian Family-Controlled Acquirers Cumulative Abnormal Returns (CAR): Founder CEO and Descendant CEO

$CAR_i = \alpha_i + \beta_{i1}\ Own_i + \beta_{i2}\ F\_CEO_i + \beta_{i3}\ H\_CEO_i + \beta_{i4}\ Fam\_Ind_i + \beta_{i5}\ F\_Dual_i + \beta_{i6}\ DualCEO_i + \beta_{i7}\ Ind\_Director_i + \beta_{i8}\ Rpa_i + \beta_{i9}\ Firmyear_i + \beta_{i10}\ Pre\_CAR_i + \beta_{i11}\ non\_related_i + \beta_{i12}\ FCF_i + \beta_{i13}\ LN\_MVE_i + \beta_{i14}\ LN\_RM_i + \beta_{i15}\ Crossborder_i + \beta_{i16}\ Public_i + \beta_{17}\ Equity_i + \beta_{18}\ Yr08\_11_i + \varepsilon_i$

	Market Model			Market Adjusted Model		
	(1)	(2)	(3)	(4)	(5)	(6)
$\overline{CAR}$	(-1,+1)	(-2,+2)	(-3,+3)	(-1,+1)	(-2,+2)	(-3,+3)
Own	-0.0019	0.0278	-0.0012	-0.0056	0.0238	-0.0021
	(-0.11)	(1.07)	(-0.04)	(-0.33)	(0.95)	(-0.08)
F_CEO	1.1183*	1.5020	1.2196	0.8558	1.4105	1.0842
	(1.65)	(1.52)	(1.30)	(1.20)	(1.36)	(1.17)
H_CEO	2.0047**	2.7171**	2.5358*	1.6629*	2.4170*	2.3931*
	(2.36)	(2.19)	(1.79)	(1.87)	(1.88)	(1.67)
Fam_Ind	-1.4328**	-1.4600*	-0.5572	-1.3685**	-1.4083*	-0.5336
	(-2.56)	(-1.76)	(-0.54)	(-2.42)	(-1.71)	(-0.52)
F_Dual	-0.8716	-2.3228***	-2.0006*	-0.7518	-2.2430**	-1.8897*
	(-1.43)	(-2.64)	(-1.85)	(-1.21)	(-2.58)	(-1.73)
DualCEO	-0.7863	-0.2131	-0.3956	-0.8209	-0.2822	-0.5469
	(-1.33)	(-0.22)	(-0.38)	(-1.38)	(-0.29)	(-0.52)
Ind_Director	-0.0893***	-0.1229***	-0.1264***	-0.0834***	-0.1108***	-0.1086***
	(-4.28)	(-5.04)	(-3.77)	(-3.92)	(-4.68)	(-3.41)
Rpa	-1.0430**	-1.6739***	-1.7942**	-1.2053**	-1.8907***	-2.1099***
	(-2.21)	(-2.63)	(-2.47)	(-2.47)	(-2.94)	(-2.98)
Firmyear	0.0269**	0.0354**	0.0491**	0.0198	0.0236	0.0351*
	(2.24)	(2.03)	(2.32)	(1.60)	(1.34)	(1.79)
Pre_CAR	0.0153	0.0134	0.0130	0.0133**	0.0151*	0.0177*
	(0.94)	(0.67)	(0.55)	(2.07)	(1.83)	(1.89)
non_related	-1.4828**	-0.7222	-1.0706	-1.5272**	-0.8952	-1.3176
	(-2.09)	(-0.83)	(-1.01)	(-2.09)	(-1.01)	(-1.24)
FCF	0.5575	4.4287	9.5851	-0.8454	1.8793	6.8310
	(0.10)	(0.64)	(1.24)	(-0.16)	(0.27)	(0.92)
LN_MVE	-0.0486	-0.0665	0.0648	-0.0035	-0.0259	0.0942
	(-0.33)	(-0.27)	(0.25)	(-0.02)	(-0.10)	(0.36)
LN_RM	-0.3832***	-0.4338**	-0.4594*	-0.3529***	-0.3449*	-0.3531
	(-2.97)	(-2.27)	(-1.85)	(-2.79)	(-1.89)	(-1.44)
Crossborder	-1.4578***	-1.7975***	-1.3714	-1.3703***	-1.6445**	-1.0920
	(-3.19)	(-2.73)	(-1.63)	(-2.97)	(-2.54)	(-1.29)
Public	2.9441*	0.8826	1.0473	2.7752	1.3368	1.9173
	(1.70)	(0.22)	(0.37)	(1.54)	(0.30)	(0.61)
Equity	2.2933**	2.8606*	3.4891**	2.0656*	2.6857**	3.1330*
	(1.99)	(1.93)	(1.98)	(1.77)	(2.00)	(1.88)
Yr08_11	-1.0607**	-0.9510	-0.6616	-0.9042**	-0.7871	-0.5751
	(-2.45)	(-1.56)	(-0.90)	(-2.06)	(-1.28)	(-0.80)
Constant	11.6439***	12.5211***	10.9227**	10.6463***	10.6563***	8.8115*
	(4.07)	(3.23)	(2.38)	(3.61)	(2.63)	(1.93)
Observations	267	267	267	267	267	267
R-squared	0.198	0.156	0.131	0.190	0.146	0.121
Adjusted R-squared	0.140	0.0945	0.0675	0.131	0.0844	0.0577
F-Test	3.544***	3.109***	2.350***	3.022***	2.779***	2.022***
	(0.0000)	(0.0000)	(0.0019)	(0.0001)	(0.0002)	(0.0093)

The sample comprises 267 observations. The observations denote 267 corporate acquisition announcements made by 129 Malaysian family-controlled firms listed on the Main Board of Bursa across the sample period of 2002 to 2011. The reported dependent variable – CAR is regressed against the independent variables and control variables for each model from Column (1)-(6). Columns 1, 2 and 3 report the CAR that is estimated using market model. Columns 4, 5 and 6 report the CAR that is estimated from market adjusted model. The CAR denotes cumulative abnormal returns over an event window for each observation. The reported CAR estimated from both the market model and market adjusted model are cumulated over the three-day event window (-1, +1), the five-day event window (-2, +2) and the seven-day event window (-3, +3), respectively. Day 0 denotes the day of corporate acquisition announcement release. The variable *Own* denotes total family equity ownership as measured by total percentage of equity ownership in the company. The variable *F_CEO* denotes a dummy variable that equals to one when founder is the CEO, zero otherwise. The variable *Descendant CEO* denotes a dummy variable that equals to one when the descendant is the CEO, zero otherwise. The variable *Fam_Ind* denotes a dummy variable that equals to one when the ratio of total number of family members on the board over total number of independent directors on the board is more than 1, zero otherwise. The variable *F_Dual* denotes a dummy variable that equals to one when two related family members hold the positions of CEO and chairman, zero otherwise. The variable *DualCEO* denotes a dummy variable that equals to one when the position of CEO and chairman are both held by the same individual, zero otherwise. The variable *Ind_Director* denotes the total percentage of independent directors on the board. The variable *Rpa* denotes a dummy variable that equals to one when the acquisition is a related party corporate acquisition, zero otherwise. The variable *Firmyear* denotes the firm age of the company. The variable *Pre_CAR* denotes an acquirer's pre-announcement stock price run-up, which is measured by cumulative abnormal returns over the 200-day window (event day -210 to day -11) and is estimated using market model. The variable *non_related* denotes a dummy variable that equals to one when target is not within the same industry as the industry of the acquirer, zero otherwise. The variable *FCF* denotes free cash flow ratio, which is measured by [(Operating Income + Depreciation – Interest expense – Taxes – Preferred dividend – Common dividend) / Total Assets]. The variable *LN_MVE* denotes firm size that is measured by log of market capitalisation. The variable *LN_RM* denotes transaction size that is measured by the log of transaction dollar value of the acquisition in Malaysia Ringgit currency. The variable *Crossborder* denotes a dummy variable that equals to one for the acquisition of a non-domestic target, zero otherwise. The variable *Public* denotes a dummy variable that equals to one for acquisition of a public target, zero otherwise. The variable *Equity* denotes a dummy variable that equals to one for equity-financed acquisition, zero otherwise. The variable *Yr08_11* denotes a dummy variable that equals to one when the year of the event is during the period of 2008 to 2011, zero otherwise. The *,**, and *** stand for statistical significance based on two-wide tests at the 10%, 5%, and 1% levels, respectively. The numbers in parentheses denote the standard error.

To examine *Hypothesis 4* and *Hypothesis 5*, the baseline model **Equation 5.6** is expanded by replacing the variable *FamilyCEO* with two new variables of concern—*F_CEO* and *H_CEO*, which follows the following equation:

$$CAR_i = \alpha_i + \beta_{i1}\, Own_i + \beta_{i2}\, F\_CEO_i + \beta_{i3}\, H\_CEO_i + \beta_{i4}\, Fam\_Ind_i + \beta_{i5}\, F\_Dual_i + \beta_{i6}\, DualCEO_i + \beta_{i7}\, Rpa_i + \beta_{i8}\, Firmyear_i + \beta_{i9}\, Pre\_CAR_i + \beta_{i10}\, non\_related_i + \beta_{i11}\, Ind\_Director_i + \beta_{i12}\, FCF_i + \beta_{i13}\, LN\_MVE_i + \beta_{i14}\, LN\_RM_i + \beta_{i15}\, Crossborder_i + \beta_{i16}\, Public_{i17} + \beta_{17}\, Equity_i + \beta_{18}\, Yr08\_11_i + \varepsilon_i$$

Equation 6.3

The variable of interest *F_CEO,* which is a dummy variable that equals to one when founder is the CEO of the family-controlled acquirers, zero otherwise. The variable of interest *H_CEO,* which is a dummy variable that equals to one when descendant is the CEO of the family-controlled acquirers, zero otherwise. The results from the new extended model are reported in **Table 6.10** above. **Table 6.10** reports the results using OLS regressions. Column (1)-(3) and Column (4)-(6) report the results of the multivariate regressions that regress the dependent variable $\overline{\mathrm{CAR}}$ on the explanatory variables, across the three-day event window (-1, +1), five-day event window (-2, +2) and seven-day event window (-3, +3), respectively. The dependent variable $\overline{\mathrm{CAR}}$ of Column (1)-(3) is estimated from the market model. The dependent variable $\overline{\mathrm{CAR}}$ of Column (4)-(6) is estimated from the market-adjusted model.

After controlling for the effect of other explanatory factors, results in **Table 6.10** show that the existence of founder CEO does not significantly affect $\overline{\mathrm{CAR}}$ during the announcement period. This is exhibited by the variable of interest *F_CEO*. *F_CEO* exhibits positive relation with $\overline{\mathrm{CAR}}$ across all the examined event windows and different measure of $\overline{\mathrm{CAR}}$. There is weak support for *Hypothesis 4* on the beneficial association between founder CEO and family firm value. There is only a 10% significant positive relation between *F_CEO* and $\overline{\mathrm{CAR}}$(-1,+1). **Table 6.10** also shows the existence of descendant CEO, which positively and significantly affects family bidder stock returns during the announcement period. This is exhibited by the variable of interest *H_CEO*. *H_CEO* exhibits significant positive relation with $\overline{\mathrm{CAR}}$ across all the examined event windows and different measures of $\overline{\mathrm{CAR}}$. The results support *Hypothesis 5* on the beneficial association between descendant CEO and family firm value. For family firms managed solely by descendants, it actually induces positive effect on family bidder's stock returns during the announcement period.

The above result implies that descendants are actually capable of making good investment decisions that bring positive effect to stock reactions compared with their

formal predecessors, within the context of Malaysia. Such finding is consistent with previous findings that descendant-managed family firms also induce positive effect on family firm performance (Sraer and Thesmar 2007). However, it is inconsistent with Miller et al.'s (2007) inferences that the good performance of family firms is solely due to founder effect, based on their observations on U.S. family firms. The result is also inconsistent with the preliminary evidence reported in Section 3.2 univariate analysis, where descendant effect is found to experience positive stock returns during announcement period, but at an insignificant level. This discovery shows that drawing of inferences cannot depend solely on univariate analysis due to the limitation of univariate analysis not controlling the effect of other possible determinants (Masulis et al. 2007). The significant positive $\overline{\mathrm{CAR}}$ found for the examined event firms with founder on the board can be due to other uncontrolled factors inducing significant positive $\overline{\mathrm{CAR}}$. The discovery also shows that findings based on the observations of one economy may not be applicable in other economies (Bhaumik and Selarka 2012). Family owners affect family firm value differently depending on the legal environment, culture and regulation of the region (Faccio et al. 2001; Maury 2006). It is important to conduct focused-country studies, which allow unknown country specific factors to be controlled (Fan, Wei, et al. 2011).

The results overall provide important implications to the family firms and investors. First, the findings shed further lights on the existing dilemma of family owners worldwide on whether to pass down their business to descendants (Deloitte Growth Enterprise Services, 2013; KPMG, 2011; Poutziouris, et al., 2013; PricewaterhouseCoopers, 2012). In Malaysia, Malaysian family-controlled firms are highly concentrated, with strong control by the founder families and descendants (Mallin, 2011). A national survey of Grant Thornton (Grant Thornton, 2002a) with Malaysian Institute of Management (MIM) highlighted that at an almost equivalent basis, one third of Malaysian family owners see that management succession should be maintained within the family and another one third see that management succession need not be maintained within the family. Results overall imply that active managerial role of the controlling family in managing Malaysian family-controlled firms should be

encouraged, for both founders and the descendants. The findings in this paper reveal that descendent managed firms induce significant positive effect on family firm stock returns during announcement period. Second, the findings also have implication to the sustainability of family businesses where transfer of control and ownership of corporate resources from generation to generation is inevitable for family businesses. The inabilities of later generations to manage family firms not only pose threats to family businesses, but also indirectly affect society economies. However, results suggest that Malaysian family owners are encouraged to transfer their control and ownership of corporate to their next generations. Third, results also provide implication to investors that descendants are value-added assets to Malaysian family-controlled firms. Malaysian descendants are actually capable of making good investment decisions that create value for Malaysian family-controlled firms. This is in contrast to the generally known *Fredo effect* (Kidwell et al. 2013) that descendants are not good managers of the family firms.

6.7.3 Robustness Analysis

As discussed in Chapter 5, to ensure the result is robust, the expanded model (**Equation 6.3**) is re-estimated through robust regressions using iterative weighted least squares (Blanchard and Leigh 2013). Results in **Table 6.11** below show improved significance and correlations between variable of interests and $\overline{\mathrm{CAR}}$. None of the observations are excluded from the observations of the robust regression analysis by *Stata*. This means that there are no influential observations (outliers) with Cook's distance of more than 1. The results in **Table 6.11** provide further support for results reported in **Table 6.10** above, after considering the influence of influential observations. The significant positive relation between *F_CEO* and $\overline{\mathrm{CAR}}$ persists across different event windows and different measures of the $\overline{\mathrm{CAR}}$ (for market model $\overline{\mathrm{CAR}}$ and market-adjusted model $\overline{\mathrm{CAR}}$ at 5% or 10% significance level), supporting *Hypothesis 4*. Additionally, the significant positive correlation between *H_CEO* and $\overline{\mathrm{CAR}}$ also persists across different event windows and different measures of the $\overline{\mathrm{CAR}}$ (for market model $\overline{\mathrm{CAR}}$ and market-adjusted model $\overline{\mathrm{CAR}}$ at 5% or 10% significance level), supporting *Hypothesis 5*.

Table 6.11

Robust Regression of Malaysian Family-Controlled Acquirers Cumulative Abnormal Returns (CAR): Founder CEO and Descendant CEO

$CAR_i = \alpha_i + \beta_{i1}\ Own_i + \beta_{i2}\ F\_CEO_i + \beta_{i3}\ H\_CEO_i + \beta_{i4}\ Fam\_Ind_i + \beta_{i5}\ F\_Dual_i + \beta_{i6}\ DualCEO_i + \beta_{i7}\ Ind\_Director_i + \beta_{i8}\ Rpa_i + \beta_{i9}\ Firmyear_i + \beta_{i10}\ Pre\_CAR_i + \beta_{i11}\ non\_related_i + \beta_{i12}\ FCF_i + \beta_{i13}\ LN\_MVE_i + \beta_{i14}\ LN\_RM_i + \beta_{i15}\ Crossborder_i + \beta_{i16}\ Public_i + \beta_{17}\ Equity_i + \beta_{18}\ Yr08\_11_i + \varepsilon_i$

	Market Model			Market Adjusted Model		
	(1)	(2)	(3)	(4)	(5)	(6)
$\overline{CAR}$	(-1,+1)	(-2,+2)	(-3,+3)	(-1,+1)	(-2,+2)	(-3,+3)
Own	0.0092	0.0213	0.0094	0.0114	0.0171	0.0137
	(0.65)	(1.05)	(0.42)	(0.80)	(0.86)	(0.65)
F_CEO	1.1853**	1.8546**	1.5096	0.9823*	1.6479**	1.6221*
	(2.05)	(2.26)	(1.65)	(1.70)	(2.04)	(1.90)
H_CEO	1.5308**	2.2885**	1.9318*	1.2445*	1.7869**	2.1347**
	(2.37)	(2.49)	(1.89)	(1.92)	(1.98)	(2.24)
Fam_Ind	-0.8313*	-1.1429*	0.0993	-0.8327*	-1.0708	0.1336
	(-1.79)	(-1.73)	(0.14)	(-1.79)	(-1.65)	(0.19)
F_Dual	-0.9028*	-1.9058***	-2.2151***	-0.7732	-1.9045***	-2.4911***
	(-1.78)	(-2.64)	(-2.75)	(-1.53)	(-2.70)	(-3.34)
DualCEO	-0.3569	-0.5520	-0.7995	-0.2911	-0.8162	-1.0072
	(-0.73)	(-0.80)	(-1.03)	(-0.59)	(-1.19)	(-1.39)
Ind_Director	-0.0832***	-0.1091***	-0.0830***	-0.0783***	-0.0978***	-0.0630**
	(-4.24)	(-3.91)	(-2.67)	(-3.98)	(-3.57)	(-2.17)
Rpa	-0.3457	-0.8636	-0.4505	-0.5379	-0.9546	-0.6097
	(-0.84)	(-1.47)	(-0.69)	(-1.29)	(-1.65)	(-1.00)
Firmyear	0.0344***	0.0370**	0.0556***	0.0309***	0.0191	0.0349**
	(3.01)	(2.27)	(3.06)	(2.70)	(1.20)	(2.07)
Pre_CAR	0.0047	-0.0016	0.0100	0.0086*	0.0069	0.0065
	(0.41)	(-0.10)	(0.55)	(1.94)	(1.13)	(1.00)
non_related	-1.1069*	-0.6656	-0.4604	-0.9864*	-0.6637	-0.6715
	(-1.96)	(-0.83)	(-0.51)	(-1.74)	(-0.84)	(-0.80)
FCF	2.1951	6.9777	9.5096	0.1391	5.5791	5.2164
	(0.51)	(1.13)	(1.39)	(0.03)	(0.91)	(0.81)
LN_MVE	-0.0345	-0.0446	0.0100	-0.0059	0.1462	0.0824
	(-0.26)	(-0.23)	(0.05)	(-0.04)	(0.78)	(0.41)
LN_RM	-0.3139***	-0.2443	-0.2669	-0.2558**	-0.1647	-0.2080
	(-2.74)	(-1.50)	(-1.47)	(-2.22)	(-1.03)	(-1.23)
Crossborder	-1.0297**	-1.1271*	-0.8478	-0.9198**	-0.9142	-0.6865
	(-2.55)	(-1.97)	(-1.33)	(-2.27)	(-1.62)	(-1.15)
Public	3.0782**	4.3757**	1.4603	2.7498**	2.0745	3.5829*
	(2.27)	(2.27)	(0.68)	(2.02)	(1.10)	(1.79)
Equity	1.7358*	2.6510*	3.4859**	1.3791	2.5766*	3.2827**
	(1.67)	(1.80)	(2.12)	(1.32)	(1.77)	(2.14)
Yr08_11	-0.6784*	-0.7190	-0.3299	-0.5111	-0.3892	-0.1524
	(-1.87)	(-1.39)	(-0.57)	(-1.40)	(-0.77)	(-0.28)
Constant	8.1991***	7.5885**	5.3419	6.7350**	3.0076	2.8187
	(3.14)	(2.04)	(1.29)	(2.58)	(0.83)	(0.73)
Observations	267	267	267	267	267	267
R-squared	0.178	0.147	0.118	0.155	0.126	0.110
Adjusted R-squared	0.118	0.0850	0.0535	0.0941	0.0624	0.0458
F-Test	2.983***	2.372***	1.835**	2.535***	1.983**	1.709**
	(0.0001)	(0.0017)	(0.0220)	(0.0007)	(0.0112)	(0.0382)

The sample comprises 267 observations. The observations denote 267 corporate acquisition announcements made by 129 Malaysian family-controlled firms listed on the Main Board of Bursa across the sample period of 2002 to 2011. The reported dependent variable – CAR is regressed against the independent variables and control variables for each model from Column (1)-(6). Columns 1, 2 and 3 report the CAR that is estimated using market model. Columns 4, 5 and 6 report the CAR that is estimated from market adjusted model. The CAR denotes cumulative abnormal returns over an event window for each observation. The reported CAR estimated from both the market model and market adjusted model are cumulated over the three-day event window (-1, +1), the five-day event window (-2, +2) and the seven-day event window (-3, +3), respectively. Day 0 denotes the day of corporate acquisition announcement release. The variable *Own* denotes total family equity ownership as measured by total percentage of equity ownership in the company. The variable *F_CEO* denotes a dummy variable that equals to one when founder is the CEO, zero otherwise. The variable *H_CEO* denotes a dummy variable that equals to one when descendant is the CEO, zero otherwise. The variable *Fam_Ind* denotes a dummy variable that equals to one when the ratio of total number of family members on the board over total number of independent directors on the board is more than 1, zero otherwise. The variable *DualCEO* denotes a dummy variable that equals to one when the position of CEO and chairman are both held by the same individual, zero otherwise. The variable *Ind_Director* denotes the total percentage of independent directors on the board. The variable *Rpa* denotes a dummy variable that equals to one when the acquisition is a related party corporate acquisition, zero otherwise. The variable *Firmyear* denotes the firm age of the company. The variable *Pre_CAR* denotes an acquirer's pre-announcement stock price run-up, which is measured by cumulative abnormal returns over the 200-day window (event day -210 to day -11) and is estimated using market model. The variable *non_related* denotes a dummy variable that equals to one when target is not within the same industry as the industry of the acquirer, zero otherwise. The variable *FCF* denotes free cash flow ratio, which is measured by [(Operating Income + Depreciation – Interest expense – Taxes – Preferred dividend – Common dividend) / Total Assets]. The variable *LN_MVE* denotes firm size that is measured by log of market capitalisation. The variable *LN_RM* denotes transaction size that is measured by the log of transaction dollar value of the acquisition in Malaysia Ringgit currency. The variable *Crossborder* denotes a dummy variable that equals to one for the acquisition of a non-domestic target, zero otherwise. The variable *Public* denotes a dummy variable that equals to one for acquisition of a public target, zero otherwise. The variable *Equity* denotes a dummy variable that equals to one for equity-financed acquisition, zero otherwise. The variable *Yr08_11* denotes a dummy variable that equals to one when the year of the event is during the period of 2008 to 2011, zero otherwise. The *,**, and *** stand for statistical significance based on two-wide tests at the 10%, 5%, and 1% levels, respectively. The numbers in parentheses denote the standard error.

6.8 H6 Family Representatives on Board

6.8.1 Multivariate Analysis

Baseline regression in **Section 6.3.1 (Table 6.2)** reports significant negative relation between *Fam_Ind* [117] and $\overline{\mathrm{CAR}}$ at 5% significance level for Columns (1) and (4). The variable *Fam_Ind* measures the relation between family representatives (relative to independent directors on the board) and $\overline{\mathrm{CAR}}$. Results in the robust regression in **Section 6.3.3 (Table 6.3)** also report significant relation between *Fam_Ind* and $\overline{\mathrm{CAR}}$ at 10% significance level for Columns (1) and (4). Overall, the results from both tables provide weak support for *Hypothesis 6*, which hypothesises significant negative relation between the presence of family directors on the board (relative to independent directors on the board) and $\overline{\mathrm{CAR}}$.

The significant negative relation between *Fam_Ind* and $\overline{\mathrm{CAR}}(-1,+1)$ supports the inferences of previous studies that showed the poorer performance of family firms when the number of family directors on the board exceeded those of the independent directors on the board (Anderson and Reeb 2004). This also supports previous finding for Hong Kong family firms that higher numbers of family directors on the board are detrimental to family firm value (Cheung et al. 2013).

However, interpretation of these results needs to be viewed with care as the results are not robust across other event windows. Hence, this brings to the attention on the study of Anderson and Reeb (2004) which found a significant nonlinear relation between the proportion of family directors relative to independent directors on the board and family firm performance. This may explain the non-consistent result in **Table**

[117] The term *Fam_Ind* denotes a dummy variable that equals to one when the number of family directors on the board exceed the number of independent directors on the board, zero otherwise.

6.2 and Table 6.3 on the relation between *Fam_Ind* and $\overline{\mathrm{CAR}}$ for the event window $(-2,+2)$ and $(-3,+3)$. To explore further the possibility of this nonlinear relation, the baseline model **Equation 5.6** is expanded by replacing the variable *Fam_Ind* with the new variables *Fam_Ind(≤1) and Fam_Ind(>1)* [118], which follows the following equation:

$$CAR_i = \alpha_i + \beta_{i1}\ Own_i + \beta_{i2}\ FamilyCEO_i + \beta_{i3}\ Fam\_Ind_i(\leq 1) + \beta_{i4}\ Fam\_Ind_i(>1) + \beta_{i5}\ F\_Dual_i + \beta_{i6}\ DualCEO_i + \beta_{i7}\ Ind\_Director_i + \beta_{i8}\ Rpa_i + \beta_{i9}\ Firmyear_i + \beta_{i10}\ Pre\_CAR_i + \beta_{i11}\ non\_related_i + \beta_{i12}\ FCF_i + \beta_{i13}\ LN\_MVE_i + \beta_{i14}\ LN\_RM_i + \beta_{i15}\ Crossborder_i + \beta_{i16}\ Public_i + \beta_{17}\ Equity_i + \beta_{18}\ Yr08\_11_i + \varepsilon_i$$

Equation 6.4

The new **Equation 6.4** above is estimated using piecewise linear regressions, with the two new variables *Fam_Ind(≤1)* and *Fam_Ind(>1)* denoting the following:

Fam_Ind(≤1)	= *Fam/Ind*	if *Fam/Ind* is ≤ 1; and
	= 1	if *Fam/Ind* is > 1
Fam_Ind(>1)	= 0	if *Fam/Ind* ≤1; and
	= (*Fam/Ind* – 1)	if *Fam/Ind* > 1

, where *Fam/Ind* equals to the ratio of total number of family directors on the board to total number of independent directors on the board.

The purpose of estimating **Equation 6.4** is to examine if there is a nonlinear relation between *Fam_Ind* and $\overline{\mathrm{CAR}}$, which may explain the non-consistent relation between *Fam_Ind* and $\overline{\mathrm{CAR}}$. Results in **Table 6.12** below indicate strong support for the

[118] With reference to Anderson and Reeb (2004).

nonlinear relation between *Fam_Ind* and $\overline{\mathrm{CAR}}$, which strongly rejects *Hypothesis 6*. The variables of concern are *Fam_Ind(≤1)* and *Fam_Ind(>1)*.

Both variables of concern (*Fam_Ind(≤1)* and *Fam_Ind(>1)*) report significant nonlinear relation between family representatives on the board (relative to independent directors on the board) and $\overline{\mathrm{CAR}}$ across all event windows for $\overline{\mathrm{CAR}}$. The results indicate that when the number of family representatives on the board is less than that of the independent directors, positive family firm value can be upheld. However, when the number of family representatives increases and exceeds the total number of independent directors on the board, such board structure negatively affects family firm value. In simpler terms, in the case when the number of family members on the board is 4, the total number of independent directors on the board should be more than 4 to improve Malaysian family firm value. The significant positive relation between *Fam_Ind(≤1)* and $\overline{\mathrm{CAR}}$ suggests that increase in the number of family members on the board is beneficial to family firms. However, the significant negative relation between *Fam_Ind(>1)* and $\overline{\mathrm{CAR}}$ also suggests that in the case when the total number of family members on the board exceeds the total number of independent directors on the board, the value of Malaysian family-controlled firms deteriorate.

The results imply that within the context of Malaysian family-controlled firms, when the balancing power between the controlling family members on the board and independent directors on the board is obstructed, decision-making process on the board may be impeded (Anderson and Reeb 2004). Results also indicate that decision for corporate acquisitions can either be value-adding or value-destroying, under the influence of the family board structure within the context of Malaysian family-controlled firms. Value-added corporate acquisitions are encouraged when the number of family representatives on the board does not exceed the number of independent directors on the board. Value-destroying corporate acquisitions are possible when the

power of family representatives on the board exceeds that of the independent directors.

The results support assertions and findings of Anderson and Reeb (2004) that too much family voice on the board may increase the likelihood of expropriation by the controlling family. Anderson and Reeb (2004) mentioned limited level of family involvement on the board is value-enhancing to family firms. They suggested that a balance between the number of family representatives on the board and independent directors on the board is required in family firms. However, when the power of voice for the family representatives on the board increases (when total number of family members on the board is more than total number of independent directors on the board), costs can be incurred, which hinder increase in value of family firm. Consistent with agency theory, the influence of independent directors on the board is an important corporate governance measure to protect the interests of shareholders against opportunistic large shareholders (Anderson and Reeb 2004).

The findings also provide an important policy implication for the corporate governance practices in Malaysia for family-controlled firms. The current recommended corporate governance practices in Malaysia mandates a one third of the total number of directors on the board of publicly listed firms as independent directors. Evidence in this study suggests a benchmark applicable specifically for Malaysian family-controlled firms. Evidence reveal that the proportion of family members on the board relative to the proportion of independent directors on the board is an important factor when considering the required proportion of independent directors on the board. Policy makers are recommended to consider a ratio of 1:1 is the ideal ratio of independent directors on the board to family representatives on the board. For example, if there are 3 family representatives on the board, there should also be 3 independent directors on the board. This ratio, as suggested by the findings in this study, encourages the optimum functioning of the board of Malaysian family-controlled firms and also the optimization of Malaysian family-controlled firms' value.

Table 6.12

Non-Linearity Between Malaysian Family-Controlled Acquirers Cumulative Abnormal Returns (CAR) and Family Directors Relative to Independent Directors on Board: Piecewise Regression Model

$CAR_i = \alpha_i + \beta_{i1}\ Own_i + \beta_{i2}\ FamilyCEO_i + \beta_{i3}\ Fam\_Ind_i(0,1) + \beta_{i4}\ Fam\_Ind_i(>1) + \beta_{i5}\ F\_Dual_i + \beta_{i6}\ DualCEO_i + \beta_{i7}\ Ind\_Director_i + \beta_{i8}\ Rpa_i + \beta_{i9}\ Firmyear_i + \beta_{i10}\ Pre\_CAR_i + \beta_{i11}\ non\_related_i + \beta_{i12}\ FCF_i + \beta_{i13}\ LN\_MVE_i + \beta_{i14}\ LN\_RM_i + \beta_{i15}\ Crossborder_i + \beta_{i16}\ Public_i + \beta_{17}\ Equity_i + \beta_{18}\ Yr08\_11_i + \varepsilon_i$

	Market Model			Market Adjusted Model		
	(1)	(2)	(3)	(4)	(5)	(6)
$\overline{CAR}$	(-1,+1)	(-2,+2)	(-3,+3)	(-1,+1)	(-2,+2)	(-3,+3)
Own	-0.0056	0.0231	-0.0053	-0.0097	0.0231	-0.0073
	(-0.33)	(0.92)	(-0.20)	(-0.57)	(0.92)	(-0.27)
FamilyCEO	1.0625	1.5306	1.2688	0.7503	1.5306	1.0650
	(1.53)	(1.51)	(1.30)	(1.03)	(1.51)	(1.10)
Fam_Ind (≤1)	2.1247**	2.9546*	3.3082*	2.2202**	2.9546*	3.0815*
	(1.98)	(1.87)	(1.80)	(2.07)	(1.87)	(1.74)
Fam_Ind (>1)	-1.0578*	-1.8506*	-0.4538	-1.0394*	-1.8506*	-0.2561
	(-1.72)	(-1.91)	(-0.37)	(-1.71)	(-1.91)	(-0.21)
F_Dual	-0.9626	-2.3308***	-2.0232**	-0.8727	-2.3308***	-1.8981*
	(-1.59)	(-2.96)	(-2.05)	(-1.41)	(-2.96)	(-1.92)
DualCEO	-0.8827	-0.3598	-0.5647	-0.9271	-0.3598	-0.6789
	(-1.43)	(-0.38)	(-0.53)	(-1.50)	(-0.38)	(-0.63)
Ind_Director	-0.0496**	-0.0829***	-0.0776**	-0.0435*	-0.0829***	-0.0610*
	(-1.99)	(-2.99)	(-2.04)	(-1.74)	(-2.99)	(-1.75)
Rpa	-0.9787**	-1.5103**	-1.4952**	-1.1365**	-1.5103**	-1.8067**
	(-2.11)	(-2.43)	(-2.09)	(-2.35)	(-2.43)	(-2.59)
Firmyear	0.0328***	0.0431**	0.0566***	0.0255*	0.0431**	0.0411**
	(2.67)	(2.49)	(2.84)	(1.95)	(2.49)	(2.18)
Pre_CAR	0.0181	0.0172	0.0194	0.0139**	0.0172	0.0185**
	(1.14)	(0.90)	(0.85)	(2.16)	(0.90)	(2.07)
non_related	-1.4003*	-0.7214	-1.0932	-1.4634**	-0.7214	-1.3314
	(-1.96)	(-0.83)	(-1.03)	(-1.98)	(-0.83)	(-1.25)
FCF	-0.5669	3.2680	8.7374	-1.8960	3.2680	6.0026
	(-0.11)	(0.45)	(1.09)	(-0.35)	(0.45)	(0.77)
LN_MVE	-0.0282	-0.0234	0.1037	0.0188	-0.0234	0.1273
	(-0.19)	(-0.09)	(0.39)	(0.12)	(-0.09)	(0.47)
LN_RM	-0.3195**	-0.3557**	-0.3859	-0.2943**	-0.3557**	-0.2847
	(-2.59)	(-2.00)	(-1.64)	(-2.46)	(-2.00)	(-1.25)
Crossborder	-1.2095***	-1.5751**	-1.1360	-1.1329**	-1.5751**	-0.8434
	(-2.74)	(-2.50)	(-1.42)	(-2.56)	(-2.50)	(-1.05)
Public	3.0757*	1.0173	1.1399	2.8990*	1.0173	1.9382
	(1.92)	(0.27)	(0.44)	(1.74)	(0.27)	(0.67)
Equity	2.1360*	2.6168*	3.3088*	1.9059	2.6168*	2.9429*
	(1.83)	(1.86)	(1.92)	(1.60)	(1.86)	(1.80)
Yr08_11	-0.7797*	-0.6089	-0.3933	-0.6426	-0.6089	-0.3058
	(-1.88)	(-1.10)	(-0.60)	(-1.54)	(-1.10)	(-0.48)
Constant	6.9077**	6.5815	4.4818	5.9448*	6.5815	2.8864
	(2.14)	(1.49)	(0.79)	(1.86)	(1.49)	(0.53)
Observations	267	267	267	267	267	267
R-squared	0.185	0.156	0.132	0.181	0.156	0.121
Adjusted R-squared	0.126	0.0946	0.0688	0.121	0.0946	0.0571
F-Test	3.278***	3.011***	2.662***	2.834***	3.011***	2.197***
	(0.0000)	(0.0001)	(0.0004)	(0.0002)	(0.0001)	(0.0040)

The sample comprises 267 observations. The observations denote 267 corporate acquisition announcements made by 129 Malaysian family-controlled firms listed on the Main Board of Bursa across the sample period of 2002 to 2011. The reported dependent variable – CAR is regressed against the independent variables and control variables for each model from Column (1)-(6). Columns 1, 2 and 3 report the CAR that is estimated using market model. Columns 4, 5 and 6 report the CAR that is estimated from market adjusted model. The CAR denotes cumulative abnormal returns over an event window for each observation. The reported CAR estimated from both the market model and market adjusted model are cumulated over the three-day event window (-1, +1), the five-day event window (-2, +2) and the seven-day event window (-3, +3), respectively. Day 0 denotes the day of corporate acquisition announcement release. The variable *Own* denotes total family equity ownership as measured by total percentage of equity ownership in the company. The variable *FamilyCEO* denotes a dummy variable that equals to one when family member of the controlling family is the CEO, zero otherwise. *Fam/Ind* equals to the ratio of family directors to independent directors on the board. The variable *Fam_Ind(≤1)* equals to *Fam/Ind* if *Fam/Ind* is ≤ 1; and equals to 1 if *Fam/Ind* is > 1. The variable *Fam_Ind(>1)* equals to 0 if *Fam/Ind* ≤1; and equals to (*Fam/Ind* – 1) if *Fam/Ind* > 1. The variable *F_Dual* denotes a dummy variable that equals to one when two related family members hold the positions of CEO and chairman, zero otherwise. The variable *DualCEO* denotes a dummy variable that equals to one when the position of CEO and chairman are both held by the same individual, zero otherwise. The variable *Ind_Director* denotes the total percentage of independent directors on the board. The variable *Rpa* denotes a dummy variable that equals to one when the acquisition is a related party corporate acquisition, zero otherwise. The variable *Firmyear* denotes the firm age of the company. The variable *Pre_CAR* denotes an acquirer's pre-announcement stock price run-up, which is measured by cumulative abnormal returns over the 200-day window (event day -210 to day -11) and is estimated using market model. The variable *non_related* denotes a dummy variable that equals to one when target is not within the same industry as the industry of the acquirer, zero otherwise. The variable *FCF* denotes free cash flow ratio, which is measured by [(Operating Income + Depreciation – Interest expense – Taxes – Preferred dividend – Common dividend) / Total Assets]. The variable *LN_MVE* denotes firm size that is measured by log of market capitalisation. The variable *LN_RM* denotes transaction size that is measured by the log of transaction dollar value of the acquisition in Malaysia Ringgit currency. The variable *Crossborder* denotes a dummy variable that equals to one for the acquisition of a non-domestic target, zero otherwise. The variable *Public* denotes a dummy variable that equals to one for acquisition of a public target, zero otherwise. The variable *Equity* denotes a dummy variable that equals to one for equity-financed acquisition, zero otherwise. The variable *Yr08_11* denotes a dummy variable that equals to one when the year of the event is during the period of 2008 to 2011, zero otherwise. The *,**, and *** stand for statistical significance based on two-wide tests at the 10%, 5%, and 1% levels, respectively. The numbers in parentheses denote the standard error.

6.9 H7 Board Leadership Structure

6.9.1 Univariate Analysis

Table 6.13
Announcement Period Mean Cumulative Abnormal Returns for Malaysian Family-Controlled Firms for Subsamples Categorised by Board Leadership Structure

The sample comprises mean cumulative abnormal returns ($\overline{CAR}$) from the sample 267 corporate acquisition announcements of 129 Malaysian family-controlled firms. The 267 corporate acquisition announcements are categorised by announcements with acquirers under the board structure of *Independent CEO*, *Dual CEO* and *Family-related CEO*, across the sample period 2002 to 2011. The term *Independent CEO* denotes that both positions of CEO and chairman are held by independent individuals. The term *Dual CEO* denotes that both positions of CEO and chairman are held by the same person. The term *Family-related CEO* denotes that both positions of CEO and chairman are held by two separate individuals who are family-related. The average $\overline{CAR}$ of each categorised corporate acquisition announcement is expressed in percentage of returns. *N* and *%* of Column 1 report the frequencies and percentage of the categorised sample corporate acquisition announcements, respectively. Columns 2, 3 and 4 display the average $\overline{CAR}$ estimated using the market model. Columns 5, 6 and 7 present the average $\overline{CAR}$ estimated from the market adjusted model. The $\overline{CAR}$ is reported over the three-day event window (-1,+1), the five-day event window (-2, +2) and the seven-day event window (-3,+3). The statistical test employs Kolari and Pynnonen's (2011) generalised rank test (GRANK) to examine if $\overline{CAR}$ are significantly different from zero. The numbers in parentheses denote the standard error. *,**, and *** stand for statistical significance of GRANK at the 10%, 5%, and 1% level respectively.

	N (%)	Market Model CAR			Market Adjusted Model CAR		
$\overline{CAR}$		(-1,+1)	(-2,+2)	(-3,+3)	(-1,+1)	(-2,+2)	(-3,+3)
Subsamples grouped by board leadership structure							
Independent CEO	127 (47%)	0.7887*** (2.6059)	1.0363*** (3.3055)	1.0660*** (3.6679)	0.9777*** (2.6297)	1.3988*** (3.5937)	1.5565*** (3.5914)
Family-related CEO	71 (27%)	0.3313 (0.6391)	-0.2859 (-0.5004)	0.0923 (0.0412)	0.5052 (0.9204)	-0.0296 (-0.2995)	0.5463 (0.3477)
Dual CEO	69 (26%)	-0.1681 (-0.2543)	0.6984 (1.0299)	0.7109 (0.9258)	0.0032 (0.0714)	1.0935 (1.6037)	1.2043 (1.4135)
Total	267 (100%)						

Table 6.13 tabulates the announcement-period mean cumulative abnormal returns ($\overline{\text{CAR}}$) for the 267 sample corporate acquisition announcements over the period 2002 to 2011, which are grouped according to different board leadership structures of Malaysian family-controlled acquirers. This allows the examination of *Hypothesis 7* at a

preliminary stage on the relation between board leadership structure of family firms and announcement period $\overline{\mathrm{CAR}}$.

Table 6.13 reveals significant positive wealth effect of corporate acquisition announcements ($\overline{\mathrm{CAR}}$) experienced by Malaysian family-controlled acquirers when an independent board structure (independent CEO and chairman on the board) is in place. Specifically, the significance of the market model (market-adjusted model) $\overline{\mathrm{CAR}}(-1,+1)$ is at 1% (1%) with an average of 0.79% (0.98%) cumulated abnormal returns over Day-1 to Day+1, where Day 0 is the day the announcement is released. The significance level increases when event window is expanded. The significance of the market model (market-adjusted model) $\overline{\mathrm{CAR}}(-3,+3)$ is at 1% (1%) with an average of 1.06% (1.56%) cumulated abnormal returns over Day-3 to Day+3.

On the other hand, the $\overline{\mathrm{CAR}}$ that are tabulated for *Family-related CEO*, exhibit insignificant positive or negative wealth effect experienced by Malaysian family-controlled acquirers. *Family-related CEO* refers to a board leadership structure where the positions of CEO and chairman are held by two separate individuals, who are family-related. This allows the examination of *Hypothesis 7* at a preliminary stage on the relation between *Family-related CEO* and announcement period $\overline{\mathrm{CAR}}$.

Overall, results of **Table 6.13** are consistent with past notion that splitting the titles of CEO and chairman between two people improves firm performance as the board of directors can better monitor the CEO (Harris and Helfat 1998; Worrell et al. 1997; Finkelstein and D'Aveni 1994; Brickley et al. 1997; Fama and Jensen 1983b). In consequence of maintaining a unitary leadership structure (separation of CEO and chairman positions), agency costs in large organisations are reduced by separation of management from control (Boyd 1995). **Table 6.13** also provides support for the

findings of earlier family firm study (Braun and Sharma 2007), which asserts the governance effect of separating the role of CEO and chairman in family-controlled firms is beneficial to firm value, especially when the family owners are entrenched.

6.9.2 Multivariate Analysis

Within a multivariate setting, results reported by the baseline regression in **Section 6.3.1** as presented in **Table 6.2** reveal a significant negative relation between *F_Dual* and $\overline{\mathrm{CAR}}$ from the baseline model across almost all event windows. *F_Dual* denotes a dummy variable that equals to one when the positions of CEO and chairman are held by two separate individuals, who are family-related. This is in support of *Hypothesis 7*. *Hypothesis 7* hypothesises a negative relation between *F_Dual* and $\overline{\mathrm{CAR}}$. The practice of having both positions of chairman and CEO held by two separate but family-related individuals is detrimental to family firm value. The coefficient of *F_Dual* remains in the same direction across all the examined event windows and for both measures of $\overline{\mathrm{CAR}}$. [119]

Based on the results, this paper provides the first evidence of the relation between family-related chairman and CEO on the board and family firm value, within the context of corporate acquisition literature, corporate governance literature and family firm literature. This paper also reports the first evidence in family firm literature that there are family firms upholding the practices of having family-related CEO and chairman on the board.

[119] The significance of the coefficient for *F_Dual* remains significant, based on the results reported from the robust regression of the baseline model in **Table 6.3** of **Section 6.3.3**, as discussed in the forthcoming **Section 6.9.3**.

Our observations (sample) reveals that such practice of appointing family-related CEO and chairman is one of the family-specific characteristics that is observable among the board structures of Malaysian family-controlled firms, which has yet to be empirically examined in current family firm literature (Jameson et al. 2014). The practice of appointing two independent CEO and chairman in family firms complies with the generally accepted best practices of separating the role of CEO and chairman. However, the independence of the CEO and chairman is somehow lost when the CEO and chairman are family-related. These findings drawn based on sample of Malaysian family-controlled firms provide the first new evidence and support for the detrimental effect of family-related CEO and chairman on family firm value. This new discovery raises awareness of the good practices of corporate governance for Malaysian family firms and other nations' family firms among policy makers, which require further scrutinize and improvement.

Studies have constantly indicated that the composition and structure of the board of directors is an important element affecting the strategic direction and performance of the company, which ultimately affects the wealth of the shareholders (Arena and Braga-Alves 2013; Black et al. 2012; Li and Srinivasan 2011; Rosenstein and Wyatt 1997). Decision to uphold the separation of CEO role from chairman position on the board has been a recurring concern (Byrd et al. 2012; Dey et al. 2011; Braun and Sharma 2007; Brickley et al. 1997; Boyd 1995). In addition, family firms are a common organisational form, especially in Asia (Carney and Child 2012). Their prevalent presence in Malaysia is also well documented. Compliance with the existing good practices of corporate governance, specifically on CEO status (independent CEO and independent Chairman) for publicly listed firms is recommended in Malaysia. However, when both positions of CEO and chairman are held by separate individuals who are family-related, the purpose of maintaining the independence of CEO and chairman is lost (even though both positions are held by separate individuals). Findings in **Table 6.2** show that allowing the positions of CEO and chairman to be held by related family members is detrimental to the value of Malaysian family-controlled firms. The results

also suggest that such board leadership structure may entrench the dominant controlling family owners of the Malaysian family-controlled firms, leading to bad choice of corporate acquisition decisions.

6.9.3 Robustness Analysis

As mentioned in Chapter 5 Methodology, robust regression can help justify the use of ordinary least squares results (Verardi and Croux 2009). When robust regression results are similar to those of ordinary least squares, there is reassurance that results of the ordinary least squares are not influenced by the outliers (Abell et al. 1999). The *robust* regression results in **Section 6.3.3** (**Table 6.3)** again provide support for *Hypothesis 7*. The significance of the negative relation between *F_Dual* and $\overline{\mathrm{CAR}}$ similar to those reported in **Table 6.2** for $\overline{\mathrm{CAR}}$ that are either estimated from the market model or market-adjusted model across the observed event windows. Overall, results support *Hypothesis 7*.

6.10 H8 Related Party Corporate Acquisitions

6.10.1 Univariate Analysis

Table 6.14
Announcement Period Mean Cumulative Abnormal Returns for Malaysian Family-Controlled Firms for Subsamples Categorised by Related and Non-Related Party Corporate Acquisitions

The sample comprises mean cumulative abnormal returns ($\overline{CAR}$) from the sample 267 corporate acquisition announcements of 129 Malaysian family-controlled firms. The 267 corporate acquisition announcements are categorised by related-party corporate acquisitions or non-related-party corporate acquisitions across the sample period 2002 to 2011. The term *rpa* denotes related party corporate acquisitions. The term *non rpa* denotes corporate acquisitions that do not involve any related party. The average $\overline{CAR}$ of each categorised corporate acquisition announcement is expressed in percentage of returns. *N* and *%* of Column 1 report the frequencies and percentage of the categorised sample corporate acquisition announcements, respectively. Columns 2, 3 and 4 display the average $\overline{CAR}$ estimated using the market model. Columns 5, 6 and 7 present the average $\overline{CAR}$ estimated from the market adjusted model. The $\overline{CAR}$ is reported over the three-day event window (-1,+1), the five-day event window (-2, +2) and the seven-day event window (-3,+3). The statistical test employs Kolari and Pynnonen's (2011) generalised rank test (GRANK) to examine if $\overline{CAR}$ are significantly different from zero. The numbers in parentheses denote the standard error. *,**, and *** stand for statistical significance of GRANK at the 10%, 5%, and 1% level respectively.

	N (%)	Market Model CAR			Market Adjusted Model CAR		
$\overline{CAR}$		(-1,+1)	(-2,+2)	(-3,+3)	(-1,+1)	(-2,+2)	(-3,+3)
Subsamples grouped by related or non-related party corporate acquisitions							
rpa	75 (28%)	-0.0745 (-0.1572)	-0.3580 (0.2238)	-0.3574 (0.3690)	-0.0889 (-0.3093)	-0.2621 (0.0917)	-0.1856 (0.3180)
Non rpa	192 (72%)	0.6129** (2.5325)	0.9706*** (3.0175)	1.1344*** (3.4158)	0.8695*** (2.9847)	1.4096*** (3.8743)	1.7370*** (3.8610)
Total	267 (100%)						

Table 6.14 reports the announcement-period mean cumulative abnormal returns ($\overline{\text{CAR}}$) for the 267 sample corporate acquisition announcements over the period 2002 to 2011, which tabulate $\overline{\text{CAR}}$ according to two groups: the corporate acquisitions are related-party corporate acquisitions (*rpa*) or non-related-party corporate acquisitions (*Non rpa*). Results of **Table 6.14** provide preliminary evidence of the relation between related-party corporate acquisitions and announcement period $\overline{\text{CAR}}$. This also allows *prima facie* evidence of the testing of *Hypothesis 8*. The announcement period ($\overline{\text{CAR}}$) for the Malaysian family-controlled acquirers are reported over the three-day

event window (-1, +1), five-day event window (-2, +2) and seven-day event window (-3, +3) and are represented by $\overline{\mathrm{CAR}}(-1,+1)$, $\overline{\mathrm{CAR}}(-2,+2)$ and $\overline{\mathrm{CAR}}(-3,+3)$, respectively.

Table 6.14 reveals that there is a significant positive announcement wealth effect ($\overline{\mathrm{CAR}}$) experienced by Malaysian family-controlled acquirers when the corporate acquisitions do not involve any related party. More precisely, the owners or directors of both the acquiring firms and the acquired firms (targets) are not family-related in the case of non-related-party corporate acquisitions. The significance of the market model (market-adjusted model) $\overline{\mathrm{CAR}}(-1,+1)$ is at 5% (1%) with an average of 0.61% (0.87%) cumulated abnormal returns over Day-1 to Day+1, where Day 0 is the day the announcement is released. The significance level increases when the event window is expanded. The significance of the market model (market-adjusted model) $\overline{\mathrm{CAR}}(-3,+3)$ is at 1% (1%) with an average of 1.113% (1.73%) cumulated abnormal returns over Day-3 to Day+3.

Table 6.14 further reveals that there is a negative announcement wealth effect ($\overline{\mathrm{CAR}}$) (though not significant) experienced by Malaysian family-controlled acquirers when the corporate acquisitions involve related parties. In simpler terms, the owners or directors of both the acquiring firms and the acquired firms (targets) are family-related in the case of related-party corporate acquisitions. The negative sign of $\overline{\mathrm{CAR}}$ remains persistent across different event windows and measures of $\overline{\mathrm{CAR}}$. This provides further possible support for *Hypothesis 8* that Malaysian family-controlled firms may be involved in value-destroying corporate acquisitions when involving family-related parties.

Studies have examined possible expropriation behaviour of controlling owners through related-party corporate acquisitions, which offer non-consensus findings (Bae et al.

2002; Buysschaert et al. 2004). As mentioned in past literature, in the case of companies with concentrated ownership, controlling shareholders can expropriate wealth from the minority shareholders (Johnson et al. 2000; Shleifer and Vishny 1997). As discussed in Chapter 1, there have been recurring events, which are related party transactions performed by public-listed Malaysian family firms with controlling owners. However, beyond these anecdotes, there are little empirical evidence on the relevance of minority expropriation activities to Malaysian family-controlled firms and family firm value. Results shown in **Table 6.14** shed further light on past literature that there is weak support for the possibility of Malaysian family-controlled firms being involved in value-destroying corporate acquisition activities when family-related parties are involved in these corporate activities.

The results also reinforce past inferences that activities of expropriating the minority shareholders by owners with large ownership stake can be extensive, especially in emerging countries with low investor protection and weak corporate governance (La Porta et al. 2000; Johnson et al. 2000; Dyck and Zingales 2004). In this case, **Table 6.14** reports the minority shareholder expropriation behaviour by Malaysian family-controlled firms through related-party corporate acquisition activities. However, this notion must be viewed with scepticism since the results have been insignificant. *Hypothesis 8* is further examined within a multivariate setting.

6.10.2 Multivariate Analysis

Results from the baseline model in **Section 6.3.1 (Table 6.2)** reveal a negative relation between *rpa* and $\overline{\mathrm{CAR}}$. The magnitude is in support of *Hypothesis 8* of a negative relation between related party corporate acquisitions and $\overline{\mathrm{CAR}}$ of Malaysian family-controlled acquirers. However, the results are not robust when the influences of

outliers are considered, as reported in **Table 6.3 in Section 6.3.3**. Results in **Table 6.3 in Section 6.3.3** show that the significance of a negative relation between *rpa* and $\overline{\mathrm{CAR}}$ (across different event windows and different measures of $\overline{\mathrm{CAR}}$) is induced by influential observations.

Since *Stata* is used to perform estimation of the models using robust regression (the command *rreg*), any influential observations (outliers) with Cook's distance of more than 1 will be omitted from observations when performing estimation for the robust regression. However, **Table 6.3 in Section 6.3.3** reveals that none of the observations are dropped from the observations of the robust regression. This implies that there may be some observations that are influential, while not exceeding the Cook's distance of more than 1. Even though the significance of the relation diminishes in **Table 6.3**, the direction of the relation remains the same. There is still support for the value-destroying behaviour of Malaysian family-controlled acquirers when they choose corporate acquisitions that involve a related party. The insignificant negative relation between *rpa* and $\overline{\mathrm{CAR}}$ in **Table 6.2** and **Table 6.3** supports the univariate results in **Table 6.14**, which reveal the negative but insignificant relation between related-party corporate acquisition and $\overline{\mathrm{CAR}}$ across all event windows of $\overline{\mathrm{CAR}}$ for both the market-model $\overline{\mathrm{CAR}}$ and market-adjusted model $\overline{\mathrm{CAR}}$.

Hypothesis 8 hypothesises a negative relation between related party corporate acquisitions and $\overline{\mathrm{CAR}}$ of Malaysian family-controlled acquirers. The results in general provide only weak support for *Hypothesis 8*. However, the findings shed further light that there are weak evidence that Malaysian family-controlled acquirers may be involved in corporate acquisitions that are value-destroying to shareholders' wealth.

6.11 Additional Robustness Analysis

Due to the nature of pooled dataset in this study, the residuals *may* be correlated across firms, time or industry. As a result, the OLS standard errors can be over- or underestimated. Tests are performed for firm effects, time effect and industry effect to ensure that the interpretation and analyses of the results are not influenced by firm fixed effect, time effect or industry effect. The tests performed provide further justification whether adjustments need to be made to the standard errors for possible dependence of the residuals (Peterson 2009). *Stata* is used to perform the tests for firm, time and industry effect using the command *test*.

Table A6.1 in **Appendix A6** reveals the probability that F-test fails to reject the null hypothesis of common intercept for all firms. The F-test in this case is insignificant. *Therefore, there is no firm fixed effect presence in this study dataset*. **Table A6.1** in **Appendix A6** reveals the probability that F-test fails to reject the null hypothesis of common intercept for all firms. The F-test in this case is insignificant. *Therefore, there is no time effect presence in this study dataset*. **Table A6.1** in **Appendix A6** reveals the probability that F-test fails to reject the null hypothesis of common intercept for all firms. The F-test in this case is insignificant. *Therefore, there is no industry effect presence in this study dataset*.

6.12 Summary

Based on the results from univariate analysis in Section 6.2, it can be deduced that the positive wealth effect experienced by Malaysian family-controlled firms overall is inconsistent with the generally accepted notion of insignificant or negative wealth effect experienced by the acquirers (*the acquiring firms*) (Campa and Hernando 2004; Martynova and Renneboog 2008; Tuch and O'Sullivan 2007; Alexandridis et al. 2010). However, this is consistent with previous family firm studies on the significant positive wealth effect experienced by family firms from other countries (Bouzgarrou and Navatte 2013; Holmen and Knopf 2004; Bhaumik and Selarka 2012). The evidence in Section 6.2 provides further contribution to international evidence that regardless of the economy or institutional background in which the family firms reside in, overall, family firms are good performers, within the context of corporate acquisition activities.

Section 6.3 examines the announcement returns to Malaysian family-controlled acquirers in a multivariate regression setting based on the baseline model **Equation 5.6**. To control for known determinants of acquirer returns within the context of Malaysian family firm studies, the determinants are recognised based on past empirical evidence in the literature of family firms and corporate acquisitions. Overall, the reported relation between the control variables and the dependent variable - $\overline{CAR}$ is consistent with existing findings. Further discussion and analyses on the relation between variable of interests and $\overline{CAR}$ are presented in Section 6.4 to Section 6.10. The robustness test and regression diagnostic test on the baseline regression model (**Equation 5.6**) are reported in Section 6.3.2 and Section 6.3.3, respectively. These tests are performed to ensure the robustness of the inferences drawn from the reported results of the baseline regressions in Section 6.3.1 earlier. The tests overall reveal that the results and analyses made from **Equation 5.6** are reliable and robust, across different measures of $\overline{CAR}$ and across different examined event windows.

Section 6.4 and Section 6.5 jointly support the notion of nonlinear relation between family ownership and wealth effect of corporate acquisition announcement experienced by Malaysian family-controlled acquirers, which support *Hypothesis 2* and reject *Hypothesis 1*. This is also consistent with empirical findings of existing family firm studies that there is a nonlinear relation between family ownership and family firm value (Anderson and Reeb 2003b; Pindado et al. 2013; Maury 2006).

Discussions in Section 6.6 suggest that there is only weak support for *Hypothesis* 3, which postulates a positive relation between family CEO and $\overline{\mathrm{CAR}}$. There is weak support for the beneficial effect of family management on family firm value. However, it is noteworthy that results show a consistent positive relation (however insignificant) between family CEO and $\overline{\mathrm{CAR}}$. There is still weak support on the beneficial effect of having family members actively managing family-controlled firms (Maury 2006; Sraer and Thesmar 2007). Section 6.7 further reveals that the beneficial effect of family CEO on firm value needs to specifically control the specific effect of founder CEO and descendant CEO separately.

Results in Section 6.7 report positive corporate acquisition announcement wealth effect experienced by Malaysian family-controlled firms that are under active management of founder— founder CEO. The findings support *Hypothesis 4*, which is consistent with past findings (Miller et al. 2007). In addition, results in Section 6.7 show that descendant management (descendant CEO) is not detrimental to firm value, within the context of Malaysian family-controlled firms, which support *Hypothesis 5*. This implies that descendants are actually capable of making good investment decisions that create value to Malaysian family-controlled firms. The findings are inconsistent with previous studies that inherited control is linked to poor family firm performance (Kidwell et al. 2013; Bertrand et al 2008). However, the findings provide useful insight into current unwavering issues in family firms of whether to pass ownership (and

managerial role) to descendants (Deloitte Growth Enterprise Services 2013; Poutziouris et al. 2013; KPMG 2011; PricewaterhouseCoopers 2012). Section 6.7 also provides further clarification on the common dilemma of transgenerational management, which may be detrimental to the long-term prosperity of family-controlled firms (Chrisman et al. 2012; Schulze et al. 2003). In this case, within the context of Malaysia, there is a found positive association between descendant-managed Malaysian family-controlled firms and firm value.

Discussions in Section 6.8 provide weak support for *Hypothesis 6*. *Hypothesis 6* predicts that a higher number of family members on the board (relative to total number of independent directors on the board) is detrimental to the value of Malaysian family-controlled firms. This study investigates further and discovers a significant nonlinear relation between family members on the board (relative to independent directors on the board). In general, the results indicate that within the context of Malaysian family-controlled firms, the presence of family members on the board is beneficial to family firms as long as the total number of family members on the board does not exceed the total number of independent directors on the board. The findings provide further policy implications for Malaysian policy makers that there may be a need for regulations to restrict the number of family members on the board, relative to the number of independent directors on the board.

Results obtained in Section 6.9 support *Hypothesis 7*, which predict a negative relation between family-related CEO-Chairman and wealth effect of corporate acquisition announcements experienced by Malaysian family-controlled acquirers. These findings provide the first ever evidence in family firm studies that family-controlled firms uphold the practices of having family-related CEO and chairman on the board, for Malaysia. Such practices still comply with the existing generally accepted corporate governance practices of having separation of chairman role from CEO role. However, the independence of the CEO and chairman is somehow lost when both chairman and CEO

are family-related. It is unknown whether such practices are upheld in family firms from other nations. However, this finding raises concerns that if such practices are upheld elsewhere outside of Malaysia, are they a significant determinant of family firm performance? This study also provides the first ever empirical evidence reporting the detrimental effect of family-related CEO and chairman on family firm value within the literature of firm performance and board corporate governance. The findings have policy implications for the existing generally accepted corporate governance practices on separating the role of CEO from chairman on the board. Evidence reveals that consideration is needed to improve current corporate governance practices that the family relation between CEO and chairman on the board should be avoided for Malaysian family-controlled firms.

Results obtained in Section 6.10 provide weak support for *Hypothesis 8* that related-party corporate acquisitions are value-destroying to Malaysian family-controlled acquirers. Results show an insignificant negative relation between related-party corporate acquisitions and $\overline{\mathrm{CAR}}$ within a multivariate setting. However, it is noted that the relation remains negative but insignificant across the entire examined event window and the examined $\overline{\mathrm{CAR}}$. This shows that there is still some support for the fact that related-party corporate acquisitions by Malaysian family-controlled acquirers on average are not favourable and may be value-destroying.

CHAPTER 7 CONCLUSION

7.1 Conclusion

Among numerous types of ownership structure, family owners, as a unique form of corporate governance structure, are found to be prevalent in the global capital markets worldwide, instead of the version of widely held corporation by Berle and Means (1932). These family ownership structures dominate the ownership structure of publicly traded firms not only in the US (Anderson and Reeb 2003b) and Western Europe (Faccio and Lang 2002; Maury 2006) but also in the emerging economies (La Porta et al. 1999; Claessens et al. 2000; Shleifer and Vishny 1997; Carney and Child 2012); in fact, they are found to exert substantial influence over the economic landscapes of most nations (Astrachan and Shanker 2003; Alderson 2011; Poza 2009; PricewaterhouseCoopers 2012).

The inherent feature of owner-manager position and concentrated family ownership in family firms intrinsically mitigate conflicts between the owner and the manager (*interest alignment hypothesis*), which leads to better firm value (Shleifer and Vishny 1997). On the other hand, there is a possibility that this group of family owners would treat themselves preferentially at the expense of the minority shareholders (*expropriation hypothesis*), which leads to deterioration in firm value (Shleifer and Vishny 1997; Fama and Jensen 1983b; Maury 2006). The negative impact of concentrated ownership on the firm value is well publicized, especially for economies with weak external corporate governance (poor market for corporate control) and lack

of legal protection for shareholders and creditors (Lins 2003; Claessens and Yurtoglu 2013; Claessens et al. 2002; Shleifer and Vishny 1997). Consequently, to be concerned with the design of a corporate governance framework that can protect minority investors from the misbehaved and self-interested controlling shareholders and managers of the company has been a continuous effort from policymakers and regulators worldwide (McCahery and Vermeulen 2013). Previous studies have also emphasised the importance of conducting focused-country studies for family firms (Miller et al. 2007; Cucculelli and Micucci 2008; Fan, Wei, et al. 2011), as family owners are found to affect family firm value differently, depending on the legal environment, culture, and regulation of the region (Faccio et al. 2001; Maury 2006).

Malaysia offers a suitable setting for studies to be conducted to provide further understanding of family firms and family firm behaviour. Malaysian family-controlled firms are both prevalent and notable among Malaysian publicly listed companies (World Bank Group 1999; Claessens et al. 2000; Carney and Child 2012) that wield considerable economic power in the country (Ngui 2002; Fan, Tan, et al. 2011; Claessens et al. 2000; Forbes 2012). Concentrated family ownership in addition to involvement in the management of the company is a common feature of Malaysian family-controlled firms. Minority shareholders under such conditions have little say in the management, ethics, and practices of these types of organisations (Reed 2002). Given that the ownership structure of the majority of Malaysian publicly listed firms is characterised by concentrated shareholdings of controlling owners, the protection of minority shareholders becomes inherently critical. However, the act of expropriation is scarcely investigated for the case of Malaysia.

The Malaysian government has been continuously putting in effort to set up an effective investor protection system and corporate governance system for the country's capital market. As a result, Malaysia has proven to be a regional leader in corporate governance within the Asian region, as reported in *Corporate Governance*

Report on Observance of Standards and Codes 2012 (World Bank 2012). In terms of investor protection regime, Malaysia continues to receive positive reports on its corporate governance practices through its fourth position in terms of investor protection for the sixth consecutive year (World Bank 2009, 2011, 2012). Different from those in other East Asian countries, the Malaysian market has been the only emerging market of East Asia in which the government has institutionalised shareholder activism, through the establishment of *Minority Shareholder Watchdog Group* (MSWG) in the year 2001 (Azizan and Ameer 2012).

Overall, Malaysia has strongly defined formal legal rights, creditor rights, minority shareholders' legal protection, and disclosure requirements of listing corporations that exceed those of most advanced countries (Claessens and Yurtoglu 2013). In view of the Malaysian government's continuous effort in improving the corporate governance system of Malaysia, such effort may hinder the controlling families of Malaysian family-controlled firms from engaging in minority shareholder expropriation activities. An empirical question naturally arises as to whether the current corporate governance framework in Malaysia and the government's effort (with the formation of the MSWG) is effective to hinder Malaysian family firms from activities that expropriate the minority shareholders.

Corporate acquisition activities provide the advantage as a measure for evidence of agency problem (Shleifer and Vishny 1997; Faccio and Stolin 2006) through observation of the market performance of family firms when family firms execute corporate acquisitions (Bhaumik and Selarka 2012; Caprio et al. 2011; Shim and Okamuro 2011; Bauguess and Stegemoller 2008; Bouzgarrou and Navatte 2013). Malaysia is in an active position with corporate acquisition activities, accounting for the highest percentage of the total deals and transaction value in the Southeast Asian region since the year 1990 among other Southeast Asian countries (Metwalli and Tang 2009, 2002). However, there have been no significant studies conducted to find out if corporate

acquisition activities are subject to misappropriation and abusive behaviour specifically among Malaysian family-controlled firms.

The motivation to conduct this study stems from this literature gap. Consequently, the main research objective of this study is to *identify family-related traits that are important determinants of the market value changes in Malaysian family-controlled firms during corporate acquisitions*.

To achieve the research objective, the following research questions are constructed in this study:

Research Question 1: Do Malaysian family-controlled firms undertake value-enhancing or value-decreasing corporate acquisitions?

Research Question 2: Is family ownership an important corporate governance characteristic to determine whether Malaysian family-controlled firms perform value-enhancing or value-decreasing corporate acquisitions?

Research Question 3: Are family-related traits important determinants of the market value changes in Malaysian family-controlled firms when undertaking corporate acquisitions?

Based on the review of the existing family firm literature and corporate acquisition literature, 8 hypotheses are constructed in Chapter 4 to address the research objective and research questions. These 8 hypotheses predict a significant relation between the announcement-period stock performance of Malaysian family-controlled firms and

various tested family-related traits. These family-related traits include family ownership, family management regime (family-CEO or nonfamily professional CEO), founder-CEO or descendant-CEO, family-related chairman and CEO on the board, family representatives on the board, and related party corporate acquisitions.

Overall, in this study, the announcement-period wealth effect of corporate acquisitions (*cumulative abnormal returns – CAR*) experienced by Malaysian family-controlled firms is investigated. Investigations are performed to examine if family-specific traits are significant determinants of the announcement-period wealth effect of the corporate acquisitions for Malaysian family-controlled firms. Inferences are drawn based on 267 sample corporate acquisition announcements made by Malaysian family-controlled firms across a 10-year sample period from the years 2002 to 2011.

The overall results in Section 6.2 have empirically revealed results supporting the notion that Malaysian family-controlled firms, on average, perform value-enhancing corporate acquisitions. The findings answer **Research Question 1:** *Do Malaysian family-controlled firms undertake value-enhancing or value-decreasing corporate acquisitions?* Evidence reveals that Malaysian family-controlled firms, on average, perform value-enhancing corporate acquisitions. As discussed earlier, expropriation activities by controlling owners with large ownership stake can be extensive, especially in emerging countries (La Porta et al. 2000, Johnson et al., 2000). In addition, other than being high-profile corporate investments, corporate acquisitions are also a direct measure for possible minority shareholder expropriation activities (Shleifer and Vishny 1997). Given that the ownership structure of most Malaysian publicly listed firms is characterised by concentrated shareholdings of controlling owners, the overall behaviour of the Malaysian family firm owners becomes inherently critical.

Beyond these anecdotes, there is little empirical evidence on the relevance of minority shareholder expropriation activities to Malaysian family-controlled firms and family firm value through corporate acquisitions. Section 6.2 clarifies these anecdotes, where, unlike its counterparts in Asia (Bae et al. 2002; Bhaumik and Selarka 2012), the interests of the controlling owners of Malaysian family-controlled firms, on average, are well aligned with those of the shareholders. In addition, the evidence in Section 6.2 fills the literature gap in corporate acquisition literature for Malaysia. Overall, the findings enhance our understanding of the behavioural differences among family owners in an emerging economy. The findings in this study create awareness among policy makers that findings in one country may not necessarily be applicable to another country (Fan et al. 2011; Faccio et al. 2001). Policy makers need to be aware that when applying new policies (or when planning to), supporting facts from country-specific research and evidence need to be taken into consideration. Forthcoming discussions reveal various family-specific traits that need to be considered to safeguard the interests of the shareholders of Malaysian family-controlled firms.

Overall, Section 6.3 until Section 6.10 addresses **Research Question 3—** *Are family-related traits important determinants of the market value changes in Malaysian family-controlled firms when undertaking corporate acquisitions?* Results reported in Section 6.3 show which specific family-firm traits exhibit significant relation with announcement-period firm value of Malaysian family-controlled firms—the CAR. The examinations are performed under multivariate settings to control for the known effects of other determinants. Overall, these findings show that family-specific features are important determinants of announcement-period stock market returns of Malaysian family-controlled firms, which raise further concerns for policy makers and investors as discussed below.

Sections 6.4 and 6.5 jointly support the notion of a nonlinear relation between family ownership and wealth effect of corporate acquisition announcement experienced by

Malaysian family-controlled acquirers. Other than addressing **Research Question 3**, the findings in Sections 6.4 and 6.5 also answer **Research Question 2—** *Is family ownership an important corporate governance characteristic to determine whether Malaysian family-controlled firms perform value-enhancing or value-decreasing corporate acquisitions?* Family ownership in Malaysian family-controlled firms is an important corporate governance mechanism in determining family owners' strategic directions in corporate acquisitions. Evidence in this study reveals that when owning close to 50% or more of the ownership stake, Malaysian family-controlled firms would invest in value-destroying corporate acquisitions. In addition, the findings in Sections 6.4 and 6.5 also provide important contributions to the conflicting theoretical argument of Agency Problem I and Agency Problem II within the context of Malaysian family-controlled firms and corporate acquisitions. From a theoretical viewpoint, whether concentrated family ownership induces interest alignment between principal-agent or induces family entrenchment for Malaysian family-controlled firms is not clear. Findings reveal that increasing family ownership is beneficial to family firms. However, when Malaysian family owners obtain highly concentrated ownership (close to 50% or more in ownership stake), evidence reveals entrenchment behaviour of Malaysian family owners. Overall, the findings reveal an important policy implication for Malaysian policy makers. The concentrated level of family ownership stake in publicly listed firms in Malaysia needs to be restricted. Evidence reveals that concentrated family ownership in Malaysian family-controlled firms needs to be capped at 50% for optimum performance of Malaysian family-controlled firms.

Sections 6.6 and 6.7 extend our understanding about the effect of active family management on family firm value. An existing study implies that the main contributor to positive family firm value is due to the effect of founder (Miller, 2007). Past studies find that transferring the managerial role and ownership to descendants is detrimental to family firms (Kidwell et al., 2013). Sections 6.6 and 6.7 present in-depth findings within the context of an emerging economy that active management role of descendant should be encouraged for Malaysian family-controlled firms, consistent with findings for other Asian countries (Bunkanwanicha et al. 2013; Mehrotra et al.

2013). Results obtained from the analysis show that descendant-CEO is an important determinant of the wealth effect of corporate acquisitions for Malaysian family firms. Different from family firms from non-Asian countries (Cucculelli and Micucci 2008), descendant CEOs are good managers who create value in the case of Malaysian family-controlled firms. The findings shed further light on the existing dilemma of family owners worldwide on whether to pass down their business to descendants (Deloitte Growth Enterprise Services 2013; Poutziouris et al. 2013; KPMG 2011; PricewaterhouseCoopers 2012).

Section 6.8 shows that family members on the board are important determinants of Malaysian family-controlled firms' value. This is a new finding and has not yet been documented within the literature of corporate acquisitions that this family-specific trait is an important determinant of the wealth effect of corporate acquisition announcements. Findings reveal that there is a significant nonlinear relation between total number of family members on the board (relative to total number of independent directors) and announcement-period stock performance of Malaysian family-controlled firms. Results suggest that having family members on the board is value enhancing to Malaysian family-controlled firms. However, when the total number of family members on the board exceeds the total number of independent directors on the board, it becomes detrimental to family firm value. Consistent with findings of Anderson and Reeb (2004) for US family firms, too much family voice on the board relative to the voice of independent directors on the board increases the likelihood of expropriation by the controlling family. The findings have policy implications that existing corporate governance frameworks need to consider restricting the participation of family members (relative to independent directors) on the board of Malaysian family-controlled firms.

Furthermore, findings in Section 6.8 provide important policy implications for the existing corporate governance practices in Malaysia. According to the current

recommended corporate governance practices in Malaysia (the *Malaysian Code on Corporate Governance* - MCCG), to have one third of the total number of directors on the board of publicly listed firms as independent directors is mandatory. Whether this proportion of independent directors on the board is considered high in the context of Malaysian family-controlled firms is unknown. However, considering the evidence in Section 6.8, a feasible benchmark applicable specifically to Malaysian family-controlled firms becomes clear. For Malaysian family firms, evidence reveals that the proportion of family members on the board relative to the proportion of independent directors on the board is an important factor when considering the proportions of independent directors on the board. Policy makers should consider that there must be a balance between the number of independent directors on the board and the number of family representatives on the board, for Malaysian family-controlled firms. Results suggest that a ratio of 1:1 is the ideal ratio of independent directors on the board to family representatives on the board. For example, if there are 3 family representatives on the board, there should also be 3 independent directors on the board.

Section 6.9 provides the first-ever evidence within family firm literature and the corporate governance literature that family-related chairman and CEO on the board is an important determinant of family firm value. Such family-specific feature has never been raised and documented in any family firm literature so far. Conventional best practices of corporate governance encourage the independent role of CEO and chairman on the board. However, when such practice is upheld by family firms through the appointment of family-related CEO and chairman, the corporate governance function of having a separate CEO and chairman is somewhat lost. The practices of appointing family-related CEO and chairman on the board are commonly observable in Malaysian family-controlled firms. This study has been the first in documenting the existence of such practices upheld in Malaysian family-controlled firms. This study also provides the first empirical evidence that appointing family-related CEO and chairman contributes negatively to the firm value of Malaysian family-controlled firms. The evidence provides further knowledge to policy makers that existing generally accepted corporate governance practices on the separate role of CEO and chairman on the board

requires further scrutiny and improvement to safeguard the interests of the investors. Restrictions are needed to deter the appointment of family-related CEO and chairman on the board, as evidence reveals that such family-specific practices are detrimental to the family firm value.

Section 6.10 presents only weak support for the notion that related party corporate acquisitions are detrimental to the value of Malaysian family-controlled firms. Again, this finding supports earlier evidence in Section 6.2 that the interests of Malaysian family owners, based on the sample, are well aligned with those of other shareholders. Malaysian family-controlled firms do not, on average, perform significant value-destroying corporate acquisitions, even when the acquisitions involve related parties.

Key contributions derived from this study are summarised as follows. First, findings in this study provide the first-ever evidence for Malaysia that Malaysian family-controlled firms, on average, do not create value-decreasing corporate acquisitions. Second, this study is the first that has documented a nonlinear relation between Malaysian family ownership and firm performance, within the context of Malaysia and corporate acquisition studies. Third, this study is the first to hypothesize family-related traits as important determinants of the announcement-period stock returns of family firms, which have been understudied within the literature of corporate acquisitions. Fourth, this study is the first to have empirical evidence that family-related CEO and chairman on the board (CEO and chairman on the board who are both family related) are an important determinant of the announcement-period stock returns of family firms, within the literature of family firms. Fifth, this study is the first to document this unique family-specific trait—family-related chairman and CEO on the board, within the family firm literature. Sixth, the findings demonstrate that descendants are good managers for Malaysian family firms. This finding sheds further light on the unwavering issues in family firms and in practice worldwide of whether to pass the managerial role to descendants. Last but not least, this study is the first to show a nonlinear relation

between family representatives on the board (relative to independent directors on the board) and announcement-period stock returns of family firms, for Malaysia.

7.2 Limitations

One of the limitations of this study is that the inferences are made based on observations of past data. Whether inferences made based on this 10-year sample period are applicable to the future periods is unknown. Furthermore, another limitation is the small amount of data used in this study; the employment of a larger data set across a wider sample period to increase the number of observations may allow better fit of the model. It has been in the literature that inferences are drawn based on studies with sample period that is 10 years or less (Holmen and Knopf 2004, Basu et al. 2009, Bouzgarrou and Navatte 2013). Hence, a possible remedy for the small sample size is to conduct a comparative international study. This will also provide further insights whether the results found within the Malaysian context are also applicable to other economy.

Another limitation is the inability to incorporate cash flow right and voting right into this study, which has been done in the earlier study of Ben-Amar and André (2006) for Canadian family firms. Specific to the case of Malaysia, the employment of cash flow right and voting right is not feasible. As discussed in Chapter 2, ownership by a controlling family in publicly listed Malaysian family-controlled firms is commonly achieved through multiple private firms (Song et al. 2007; Lee et al. 2012), which causes difficulties in deriving the *precise* quantum of a controlling family's control rights in Malaysian family-controlled firms (Lemmon and Lins 2003; Claessens et al. 2000; Carney and Child 2012). The concerns over deriving accurate control rights are also raised in another study (Edwards and Weichenrieder 2009). A possible remedy for the

derivation of control rights has been suggested by Edwards and Weichenrieder (2009), by using the voting power indices as an alternative measure of the control rights. However, such measure has so far been empirically tested only in Germany (Edwards and Weichenrieder 2009) and Israel (Aminadav et al. 2011). There is a need for new avenues of empirical research focused on the use of voting power indices as an alternative measure of the control rights in other economies and of its economic impact on firm value.

Last, results in this study may not be applicable to other economies. As highlighted by previous authors, family owners affect family firm value differently, depending on the legal environment, culture, and regulation of the region (Faccio et al. 2001; Maury 2006). Consequently, previous authors emphasised the importance of conducting focused-country studies for family firms (Miller et al. 2007; Cucculelli and Micucci 2008; Fan, Wei, et al. 2011). In comparison with cross-country studies, focused-country studies allow researchers to analyse the impacts of key institutional factors on various issues, while holding constant other factors that might be difficult to disentangle in cross-country studies (Fan, Wei, et al. 2011).

7.3 Future Work

To perform a similar study by employing both family and nonfamily firms in the observation for comparison purpose would be interesting. There will be some limitations when including nonfamily firms in a similar study as some of the family-firm specific features may not exist or be practised in nonfamily firms. Furthermore, a comparative study involving countries in Asia will shed further light whether findings in this study are applicable to family firms in other Asian countries.

In addition, a new discovery is reported in this study for Malaysian family-controlled firms. Results consistently support robust and significant negative relation between the proportion of independent directors on the board and the announcement-period stock performance of Malaysian family-controlled firms across all the examined models in this study. This is not consistent with the generally accepted notion on the positive relation between proportion of independent directors on the board and firm value. However, the reported negative relation between the proportion of independent directors and family firm value in this study support the notion of Jonovic (1989) that the presence of outside directors on the board does not necessarily contribute positive effect to the family-controlled firm as a whole. Empirical study also supports that a classical board structure may only suit a few family firms (Hwang and Kim 2009; Jameson et al. 2014). The reasons for this type of negative relationship can be considered in future study for Malaysian family-controlled firms.

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APPENDIX

A1 Top 100 Malaysia Public Listed Companies by Market Capitalization

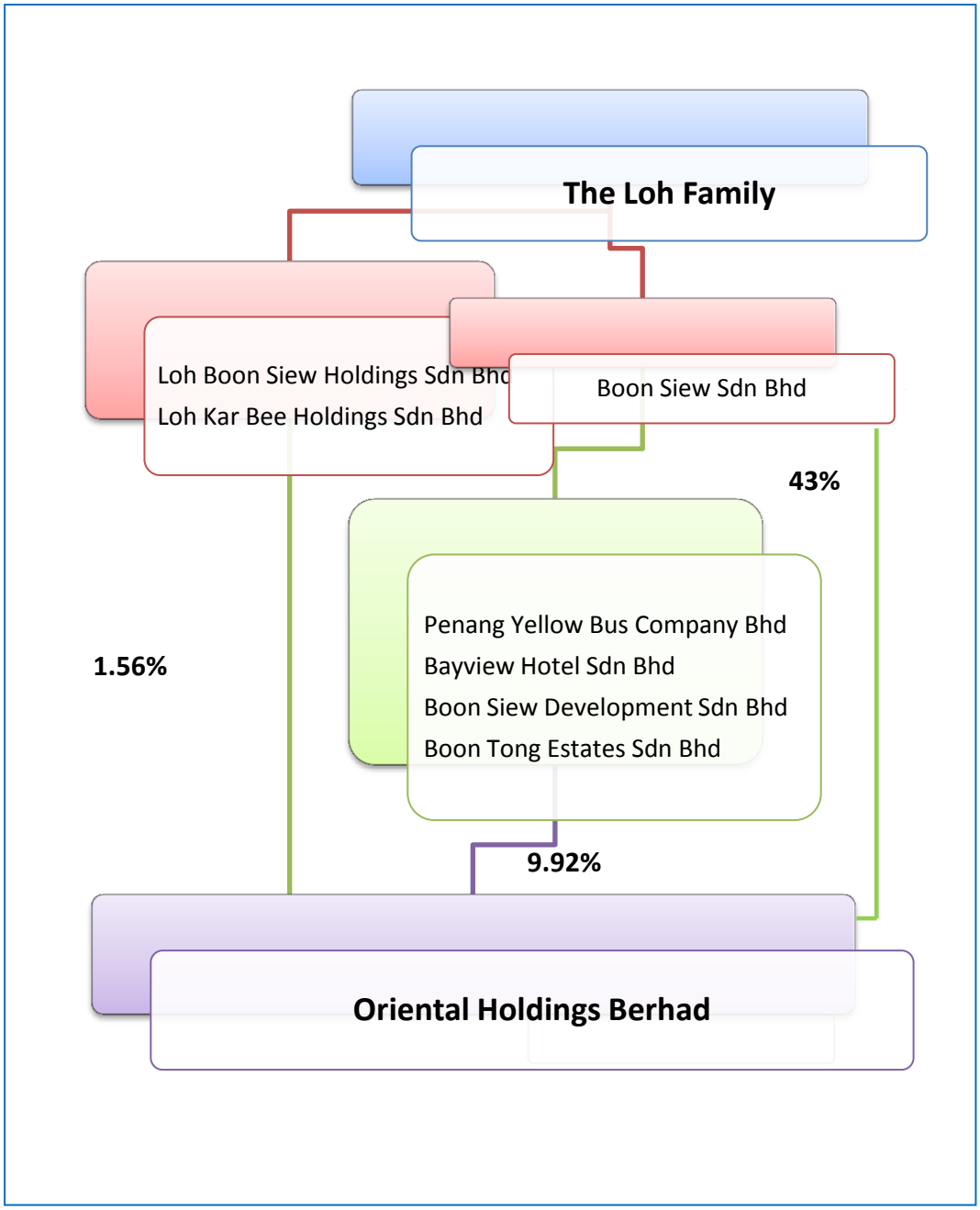
Table A1.1
Top 100 Malaysia Public Listed Companies by Market Capitalization as at 31st October 2012
(Data sourced from Database *Capital IQ*)

	Company * Malaysian family-controlled firms are with the highlighted column	**Market Capitalization (MYRmm)**
1	Malayan Banking Bhd (KLSE:MAYBANK)	76,210.9
2	Sime Darby Berhad (KLSE:SIME)	58,772.9
3	CIMB Group Holdings Berhad (KLSE:CIMB)	56,712.1
4	Public Bank Berhad (KLSE:PBBANK)	55,683.8
5	Axiata Group Berhad (KLSE:AXIATA)	55,553.4
6	Maxis Berhad (KLSE:MAXIS)	52,203.6
7	Petronas Chemicals Group Berhad (KLSE:PCHEM)	52,000.0
8	DiGi.Com Berhad (KLSE:DIGI)	41,285.3
9	Petronas Gas Bhd (KLSE:PETGAS)	38,783.2
10	Tenaga Nasional Bhd (KLSE:TENAGA)	38,390.2
11	Genting Berhad (KLSE:GENTING)	32,698.6
12	IOI Corp.Bhd (KLSE:IOICORP)	32,339.4
13	Hong Leong Bank Berhad (KLSE:HLBANK)	26,435.8
14	IHH Healthcare Berhad (KLSE:IHH)	26,341.3
15	Kuala Lumpur Kepong Bhd (KLSE:KLK)	22,811.6
16	Petronas Dagangan Bhd (KLSE:PETDAG)	21,935.5
17	Telekom Malaysia Bhd (KLSE:TM)	21,392.9
18	Genting Malaysia Berhad (KLSE:GENM)	20,369.9
19	AMMB Holdings Berhad (KLSE:AMBANK)	19,230.9
20	MISC Berhad (KLSE:MISC)	18,926.5
21	YTL Corporation Berhad (KLSE:YTL)	18,081.7
22	British American Tobacco Malaysia Bhd (KLSE:BAT)	18,056.9
23	RHB Capital Bhd (KLSE:RHBCAP)	16,768.2
24	Nestle Malaysia Bhd. (KLSE:NESTLE)	16,340.0
25	PPB Group Berhad (KLSE:PPB)	15,956.8
26	Hong Leong Financial Group Berhad (KLSE:HLFG)	13,412.9
27	Astro Malaysia Holdings Berhad (KLSE:ASTRO)	12,799.3
28	SapuraKencana Petroleum Berhad (KLSE:SKPETRO)	12,561.0
29	Felda Global Ventures Holdings Berhad (KLSE:FGV)	12,487.0
30	YTL Power International Berhad (KLSE:YTLPOWR)	11,863.8
31	UMW Holdings Bhd (KLSE:UMW)	11,659.6
32	Bumi Armada Berhad (KLSE:ARMADA)	11,482.2

33	UEM Land Holdings Berhad (KLSE:UEMLAND)	9,175.1
34	AirAsia Berhad (KLSE:AIRASIA)	8,423.3
35	Lafarge Malayan Cement Berhad (KLSE:LMCEMNT)	8,284.5
36	MMC Corporation Bhd (KLSE:MMCCORP)	7,947.6
37	Malaysia Marine and Heavy Engineering Holdings Berhad	7,728.0
38	Gamuda Bhd (KLSE:GAMUDA)	7,515.1
39	Batu Kawan Berhad (KLSE:BKAWAN)	7,472.8
40	S P Setia Berhad (KLSE:SPSETIA)	7,257.7
41	Fraser & Neave Holdings Bhd (KLSE:F&N)	7,189.2
42	Malaysia Airports Holdings Bhd (KLSE:AIRPORT)	7,030.1
43	IJM Corporation Berhad (KLSE:IJM)	6,922.2
44	Genting Plantations Berhad (KLSE:GENP)	6,813.7
45	Kulim Malaysia Bhd (KLSE:KULIM)	6,409.7
46	Alliance Financial Group Berhad. (KLSE:AFG)	6,201.2
47	Berjaya Sports Toto Berhad (KLSE:BJTOTO)	5,863.9
48	Dialog Group Berhad (KLSE:DIALOG)	5,721.8
49	KLCC Property Holdings Bhd (KLSE:KLCCP)	5,539.1
50	Parkson Holdings Berhad (KLSE:PARKSON)	5,259.3
51	United Plantations Bhd (KLSE:UTDPLT)	5,236.7
52	Boustead Holdings Bhd (KLSE:BSTEAD)	5,181.2
53	Multi-Purpose Holdings Bhd (KLSE:MPHB)	5,181.2
54	Affin Holdings Bhd (KLSE:AFFIN)	5,066.6
55	Guinness Anchor Berhad (KLSE:GAB)	5,014.8
56	Oriental Holdings Bhd (KLSE:ORIENT)	4,838.8
57	DRB-HICOM Berhad (KLSE:DRBHCOM)	4,794.4
58	Aeon Co. (M) Bhd (KLSE:AEON)	4,380.5
59	Berjaya Land Berhad (KLSE:BJLAND)	4,030.8
60	Carlsberg Brewery Malaysia Bhd (KLSE:CARLSBG)	4,005.3
61	KPJ Healthcare Bhd (KLSE:KPJ)	3,876.8
62	MSM Malaysia Holdings Berhad (KLSE:MSM)	3,521.9
63	Hap Seng Consolidated Berhad (KLSE:HAPSENG)	3,488.4
64	IGB Corp. Bhd (KLSE:IGB)	3,474.2
65	Malaysian Airline System Bhd (KLSE:MAS)	3,442.4
66	Hartalega Sdn Bhd (KLSE:HARTA)	3,410.0
67	Bursa Malaysia Bhd (KLSE:BURSA)	3,357.1
68	Gas Malaysia Berhad (KLSE:GASMSIA)	3,351.2
69	Top Glove Corp. Bhd (KLSE:TOPGLOV)	3,311.7
70	BIMB Holdings Berhad (KLSE:BIMB)	3,232.4
71	Dutch Lady Milk Industries Bhd (KLSE:DLADY)	3,197.4
72	IJM Land Berhad (KLSE:IJMLAND)	3,102.2
73	LPI Capital Bhd (KLSE:LPI)	3,093.1
74	KFC Holdings Malaysia Bhd (KLSE:KFC)	3,085.6
75	Sunway Berhad (KLSE:SUNWAY)	3,050.3
76	Malaysia Building Society Bhd (KLSE:MBSB)	2,914.1
77	Tan Chong Motor Holdings Bhd (KLSE:TCHONG)	2,892.0
78	Bintulu Port Holdings Bhd (KLSE:BIPORT)	2,832.0
79	Sarawak Oil Palms Bhd (KLSE:SOP)	2,721.9
80	Berjaya Corporation (KLSE:BJCORP)	2,702.9
81	Shell Refining Company Berhad (KLSE:SHELL)	2,640.0
82	QL Resources Berhad (KLSE:QL)	2,637.4
83	IJM Plantations Berhad (KLSE:IJMPLNT)	2,509.4
84	Media Prima Bhd (KLSE:MEDIA)	2,460.7
85	Malaysian Resources Corp. Bhd (KLSE:MRCB)	2,441.8
86	Hap Seng Plantations Holdings Bhd (KLSE:HSPLANT)	2,351.9

87	Star Publications Malaysia Bhd (KLSE:STAR)	2,311.5
88	WCT Berhad (KLSE:WCT)	2,272.3
89	Tradewinds Plantation Berhad (KLSE:TWSPLNT)	2,264.8
90	Jaya Tiasa Holdings Berhad (KLSE:JTIASA)	2,227.6
91	Tradewinds Malaysia Bhd (KLSE:TWS)	2,173.1
92	UOA Development Bhd (KLSE:UOADEV)	2,147.6
93	NCB Holdings Bhd (KLSE:NCB)	2,073.8
94	Time Dotcom Bhd. (KLSE:TIMECOM)	2,002.2
95	Amway Malaysia Holdings Bhd (KLSE:AMWAY)	1,995.6
96	Lingkaran Trans Kota Holdings Berhad (KLSE:LITRAK)	1,995.0
97	TSH Resources Berhad (KLSE:TSH)	1,985.8
98	QSR Brands Bhd (KLSE:QSR)	1,894.3
99	Mah Sing Group Bhd (KLSE:MAHSING)	1,893.6
100	Shangri-La Hotels Malaysia Bhd (KLSE:SHANG)	1,865.6

A2 Ownership of the Loh Family in Oriental Holdings Berhad



….. *continued from above*

For the purpose of illustrating the infeasibility of deriving cash flow rights deviation from voting rights, the figure in Appendix II above illustrate the ownership structure of one of the Malaysian family-controlled firm – the **Oriental Holdings Berhad** (**OHB** - a public listed Malaysian family-controlled firm on Malaysia Stock Exchange – Main Board) that is owned and managed by the Loh family via multiple private firms.

The ownership data is derived from the fiscal year end 2010 annual report, based on all the reported ownership figures. The firms in the second and third tiers of the hierarchical structure are all private firms in which the Loh family have interests in. These private firms hold a total of 54.58% = (1.56+9.92+43) interests in OHB.

As shown from the figure above, some of the shareholdings of The Loh family in the private firms are not disclosed. This is due to the fact that these figures are also not disclosed in the annual report. First, this has induced one of the issues of infeasibility of deriving precise cash flow rights and voting rights of the The Loh family in OHB. Second, separated ownership of each private firm in OHB is also not reported, which further demonstrates the infeasibility of cash flow rights and voting rights precise measurements.

Such scenario does not only apply to OHB, but also applies to other public-listed Malaysian family-controlled firms that are owned by the controlling families via multiple private firms in a structure similar to pyramiding as well.

Overall, the illustration has demonstrated the impossibility of deriving *precise* cash flow rights and voting rights of the controlling family in a public listed Malaysian family-controlled firm when the ownership structure of the family-controlled firm involves multiple private firms in a structure similar to pyramiding. The two issues as mentioned above also are observable in other public listed Malaysian family-controlled firms in this study.

Figure A2. 1: Illustration of the Loh Family Ownership in Oriental Holdings Bhd

A3 Lists of 267 Sample Corporate Acquisition Announcements

TABLE A3.1 LISTS OF 267 SAMPLE CORPORATE ACQUISITION ANNOUNCEMENTS			
NO.	**MALAYSIAN FAMILY-CONTROLLED FIRMS - THE BIDDERS**	**EVENT DATE**	**TRANSACTION VALUE (RM)**
1	GENTING BERHAD	31/1/2011	2.10E+09
2	GENTING BERHAD	2/6/2003	1.05E+08
3	GENTING MALAYSIA BERHAD	24/11/2011	38260000
4	GENTING MALAYSIA BERHAD	24/10/2011	50000000
5	GENTING MALAYSIA BERHAD	1/7/2010	1.67E+09
6	GENTING MALAYSIA BERHAD	8/12/2009	2.29E+08
7	GENTING MALAYSIA BERHAD	26/11/2008	2.50E+08
8	GENTING PLANTATION BERHAD	18/5/2011	40350000
9	TAN CHONG MOTOR HOLDINGS BHD	22/9/2010	22900000
10	TAN CHONG MOTOR HOLDINGS BHD	17/1/2005	7600000
11	ORIENTAL HOLDINGS BERHAD	22/6/2004	1470000
12	ORIENTAL HOLDINGS BERHAD	22/12/2006	19790000
13	ORIENTAL HOLDINGS BERHAD	19/9/2011	79130000
14	ORIENTAL HOLDINGS BERHAD	8/6/2011	900000
15	ORIENTAL HOLDINGS BERHAD	31/1/2011	19160000
16	THE STORE CORPORATION BERHAD	13/12/2007	1.30E+08
17	THE STORE CORPORATION BERHAD	28/4/2006	43585433
18	THE STORE CORPORATION BERHAD	15/12/2004	20166500
19	PRESS METAL BERHAD	28/11/2006	1.67E+08
20	PRESS METAL BERHAD	18/8/2003	8000000
21	KNM GROUP BERHAD	29/11/2004	5800000
22	KNM GROUP BERHAD	30/12/2005	11253000
23	KNM GROUP BERHAD	3/1/2006	7881061
24	KNM GROUP BERHAD	5/7/2006	27500000
25	KNM GROUP BERHAD	7/12/2007	51010000
26	KNM GROUP BERHAD	4/9/2007	50000000
27	KNM GROUP BERHAD	3/3/2008	1.70E+09
28	KNM GROUP BERHAD	5/12/2011	952855.5
29	MALAYAN FLOUR MILLS BHD	20/4/2010	10186446
30	BLD PLANTATION BERHAD	23/12/2009	2880000
31	BINA PURI HOLDINGS BHD	5/1/2011	1174796
32	BINA PURI HOLDINGS BHD	11/8/2010	807581
33	KWANTAS CORPORATION BERHAD	22/6/2005	9400000
34	KWANTAS CORPORATION BERHAD	29/11/2004	90649956
35	KOSSAN RUBBER INDUSTRIES BERHAD	23/3/2011	10880000
36	KOSSAN RUBBER INDUSTRIES BERHAD	22/8/2003	835000
37	KOSSAN RUBBER INDUSTRIES BERHAD	19/7/2002	3500000

38	SUPERMAX CORPORATION BERHAD	10/3/2006	1.11E+08
39	EVERGREEN FIBREBOARD BERHAD	12/8/2011	37837800
40	EVERGREEN FIBREBOARD BERHAD	23/6/2008	2.13E+08
41	EVERGREEN FIBREBOARD BERHAD	13/2/2007	13700000
42	CAHYA MATA SARAWAK BERHAD	28/2/2011	8007766
43	CAHYA MATA SARAWAK BERHAD	3/9/2007	1.10E+08
44	CAHYA MATA SARAWAK BERHAD	21/3/2005	22654861
45	TSH RESOURCES BERHAD	13/5/2011	12600000
46	TSH RESOURCES BERHAD	8/1/2010	17000000
47	TSH RESOURCES BERHAD	15/4/2009	21532368
48	TSH RESOURCES BERHAD	4/6/2008	18532125
49	TSH RESOURCES BERHAD	19/6/2007	16205474
50	TSH RESOURCES BERHAD	16/1/2007	88704000
51	TSH RESOURCES BERHAD	26/4/2006	33900000
52	TSH RESOURCES BERHAD	1/3/2006	9790000
53	WTK HOLDINGS BERHAD	26/1/2011	11821264
54	WTK HOLDINGS BERHAD	10/12/2007	34000000
55	WTK HOLDINGS BERHAD	4/12/2007	33000000
56	WTK HOLDINGS BERHAD	27/7/2006	1.50E+08
57	MELEWAR INDUSTRIAL GROUP BERHAD	21/10/2005	83050208
58	ENGTEX GROUP BERHAD	3/4/2007	1437617.8
59	SCIENTEX BERHAD	16/12/2011	46389000
60	SCIENTEX BERHAD	19/10/2009	65313864
61	SCIENTEX BERHAD	6/8/2009	1145046
62	SCIENTEX BERHAD	8/9/2008	9252468
63	SCIENTEX BERHAD	30/1/2003	6250000
64	SUBUR TIASA HOLDINGS BERHAD	16/11/2009	17500000
65	SUBUR TIASA HOLDINGS BERHAD	28/4/2008	3706500
66	SUBUR TIASA HOLDINGS BERHAD	3/5/2007	8000000
67	RIMBUNAN SAWIT BHD	23/5/2011	1020000
68	RIMBUNAN SAWIT BHD	11/9/2009	58594000
69	RIMBUNAN SAWIT BHD	31/7/2009	58594000
70	RIMBUNAN SAWIT BHD	12/10/2007	50667000
71	IPMUDA BERHAD	29/9/2010	799998
72	IPMUDA BERHAD	19/12/2006	5000000
73	IPMUDA BERHAD	1/6/2006	1350000
74	EP MANUFACTURING BERHAD	27/4/2007	38500000
75	MEGA FIRST CORPORATION BERHAD	27/1/2005	2569166
76	D&O GREEN TECHNOLOGIES BHD	13/5/2010	72802695
77	ROCK CHEMICAL INDUSTRIES (MALAYSIA) BERHAD	2/2/2007	4600000
78	RELIANCE PACIFIC BERHAD	5/2/2008	49000000
79	DELLOYD VENTURES BERHAD	5/1/2007	499998
80	DELLOYD VENTURES BERHAD	19/1/2005	68000000
81	DELLOYD VENTURES BERHAD	18/9/2003	6000000
82	CAB CAKARAN CORPORATION BERHAD	27/10/2005	2805000

83	MAMEE-DOUBLE DECKER (M) BERHAD	23/6/2008	450000
84	MAMEE-DOUBLE DECKER (M) BERHAD	6/6/2008	10705200
85	TSM GLOBAL BERHAD	3/3/2010	15080000
86	MAGNI-TECH INDUSTRIES BERHAD	29/12/2005	42000000
87	TOMEI CONSOLIDATED BERHAD	6/10/2011	3585260
88	TOMEI CONSOLIDATED BERHAD	7/9/2011	3998974
89	TOMEI CONSOLIDATED BERHAD	8/3/2011	2749999
90	SELANGOR DREDGING BERHAD	9/7/2008	48000000
91	CB INDUSTRIAL PRODUCT HOLDINGS BERHAD	9/12/2009	4000000
92	CB INDUSTRIAL PRODUCT HOLDINGS BERHAD	23/10/2007	13230000
93	TONG HERR RESOURCES BERHAD	14/5/2010	35132880
94	WING TAI MALAYSIA BERHAD	2/11/2004	1520000
95	FARM'S BEST BERHAD	6/8/2009	4077390
96	FARM'S BEST BERHAD	3/8/2007	805000
97	FARM'S BEST BERHAD	14/4/2006	863000
98	GUH HOLDINGS BERHAD	1/7/2011	8972473
99	WEIDA (M) BERHAD	25/2/2008	6000000
100	WEIDA (M) BERHAD	12/10/2004	1500000
101	MKH BERHAD	24/12/2007	24000000
102	MKH BERHAD	26/5/2006	10200000
103	EASTERN & ORIENTAL BHD	12/4/2007	3060000
104	EASTERN & ORIENTAL BHD	10/11/2005	9250000
105	PENSONIC HOLDINGS BHD	24/2/2006	2009551
106	PENSONIC HOLDINGS BHD	6/12/2004	6069000
107	PW CONSOLIDATED BERHAD	26/1/2004	10000000
108	GOLDIS BERHAD	24/3/2006	3620000
109	IGB CORPORATION BHD	19/12/2011	2.78E+08
110	WAH SEONG CORPORATION BHD	5/6/2007	1454228.1
111	WAH SEONG CORPORATION BHD	1/7/2005	39925000
112	KRISASSETS HOLDINGS BERHAD	14/2/2011	2.16E+08
113	LII HEN INDUSTRIES BHD	8/3/2005	2000000
114	SKP RESOURCES BHD	27/4/2006	30000000
115	GADANG HOLDINGS BERHAD	10/7/2007	12000000
116	GADANG HOLDINGS BERHAD	27/4/2006	2800000
117	ADVANCE SYNERGY BHD	15/9/2011	600000
118	TRINITY CORPORATION BERHAD	24/5/2004	12200000
119	NOTION VTEC BERHAD	27/4/2010	3400000
120	EDEN INC. BERHAD	5/12/2007	3500000
121	PMB TECHNOLOGY BERHAD	1/12/2006	7000000
122	GOLDEN LAND BERHAD	21/12/2009	7957348
123	GOLDEN LAND BERHAD	28/9/2009	23523746
124	GOLDEN LAND BERHAD	28/4/2009	6300000
125	GOLDEN LAND BERHAD	11/9/2008	15640000
126	GOLDEN LAND BERHAD	4/11/2003	3185000
127	SUCCESS TRANSFORMER CORPORATION BERHAD	21/6/2011	6438000

128	SUCCESS TRANSFORMER CORPORATION BERHAD	18/1/2011	6000000
129	SUCCESS TRANSFORMER CORPORATION BERHAD	11/6/2010	2490842
130	SUCCESS TRANSFORMER CORPORATION BERHAD	10/5/2006	14628000
131	FIAMMA HOLDINGS BHD	4/5/2007	1996400
132	TALIWORKS CORPORATION BERHAD	16/7/2007	1.08E+08
133	TALIWORKS CORPORATION BERHAD	27/12/2006	7700000
134	TEK SENG HOLDINGS BERHAD	21/1/2011	1800000
135	PERMAJU INDUSTRIES BERHAD	8/3/2010	33680000
136	BOON KOON GROUP BERHAD	10/4/2006	11000000
137	UNIMECH GROUP BERHAD	11/9/2008	4486700
138	SEE HUP CONSOLIDATED BHD	28/10/2005	1397999
139	A & M REALTY BHD	8/5/2007	75000000
140	A & M REALTY BHD	19/7/2004	21123000
141	DPS RESOURCES BERHAD	6/5/2008	11500000
142	DPS RESOURCES BERHAD	10/4/2008	4900000
143	DPS RESOURCES BERHAD	18/11/2005	4600000
144	UZMA BERHAD	31/3/2010	8175000
145	CHEE WAH CORPORATION	24/3/2011	11008915
146	ECOFIRST CONSOLIDATED BERHAD	11/3/2011	4500000
147	MINTYE INUDSTRIES BHD	1/6/2010	1040013
148	TAHPS GROUP BHD	12/10/2011	1.08E+08
149	MALAYAN UNITED INDUSTRIES BHD	31/10/2006	2.73E+08
150	ADVENTA BHD	3/8/2009	800000
151	ASIA FILE CORP. BHD	21/9/2007	66360000
152	BATU KAWAN BHD	22/11/2004	5700000
153	BATU KAWAN BHD	4/9/2002	10013000
154	KUALA LUMPUR KEPONG BHD	1/11/2010	4717000
155	KUALA LUMPUR KEPONG BHD	21/10/2010	8830000
156	KUALA LUMPUR KEPONG BHD	14/7/2009	2295000
157	KUALA LUMPUR KEPONG BHD	8/5/2009	19193000
158	KUALA LUMPUR KEPONG BHD	10/2/2009	1155510
159	KUALA LUMPUR KEPONG BHD	16/11/2007	12578000
160	KUALA LUMPUR KEPONG BHD	28/9/2007	67671400
161	KUALA LUMPUR KEPONG BHD	2/2/2007	12393000
162	KUALA LUMPUR KEPONG BHD	18/12/2006	3.77E+08
163	KUALA LUMPUR KEPONG BHD	26/6/2006	2753991
164	KUALA LUMPUR KEPONG BHD	12/6/2006	7496000
165	KUALA LUMPUR KEPONG BHD	11/1/2006	22000000
166	KUALA LUMPUR KEPONG BHD	6/12/2005	12316500
167	KUALA LUMPUR KEPONG BHD	22/11/2004	5700000
168	BERJAYA CORPORATION BHD	29/7/2011	77910000
169	BERJAYA CORPORATION BHD	10/8/2010	3500000
170	BERJAYA CORPORATION BHD	12/5/2010	5.25E+08
171	BERJAYA CORPORATION BHD	18/9/2009	794067
172	BERJAYA CORPORATION BHD	4/5/2009	19530000

173	BERJAYA CORPORATION BHD	23/5/2008	2880000
174	BERJAYA CORPORATION BHD	24/4/2008	12800000
175	BERJAYA LAND BHD	10/12/2007	2.29E+08
176	BERJAYA LAND BHD	7/11/2007	2.54E+08
177	BERJAYA LAND BHD	24/2/2006	22780000
178	COASTAL CONTRACTS BHD	14/8/2006	2000000
179	CYMAO HOLDINGS BHD	29/12/2009	4000000
180	CYMAO HOLDINGS BHD	6/6/2005	16000000
181	FREIGHT MANAGEMENT HOLDINGS BHD	28/5/2007	2240993.3
182	HARN LEN CORPORATION BHD	8/12/2009	13999000
183	HARN LEN CORPORATION BHD	19/9/2006	9993160
184	KECK SENG MALAYSIA BHD	2/10/2009	20829930
185	LB ALUMINIUM BHD	9/10/2008	6000000
186	MAHAJAYA BHD	19/10/2005	10200000
187	MAHAJAYA BHD	10/6/2005	3500000
188	CEPATWAWASAN GROUP BHD	26/12/2006	14157000
189	NPC RESOURCES BHD	1/11/2010	8909280
190	NPC RESOURCES BHD	23/8/2010	15660000
191	NPC RESOURCES BHD	21/12/2009	10857963
192	NPC RESOURCES BHD	25/9/2008	16422943
193	NPC RESOURCES BHD	5/12/2006	21000000
194	PADINI HOLDINGS BHD	22/6/2004	2972127.4
195	SUPERLON HOLDINGS BHD	27/7/2011	2700000
196	TOP GLOVE CORP. BHD	8/5/2006	26800000
197	AHMAD ZAKI RESOURCES BHD	6/5/2003	4000000
198	ANN JOO RESOURCES BHD	25/4/2008	11905762
199	ANN JOO RESOURCES BHD	3/10/2005	2.05E+08
200	ATURMAJU RESOURCES BHD	18/8/2009	23000000
201	ATURMAJU RESOURCES BHD	29/1/2007	20000000
202	CLASSIC SCENIC BHD	30/8/2006	1000000
203	DXN HOLDINGS BHD	21/12/2010	2500000
204	DXN HOLDINGS BHD	17/12/2007	1009780
205	DXN HOLDINGS BHD	12/10/2005	1500000
206	LEONG HUP HOLDINGS BHD	9/2/2007	2826007
207	LEONG HUP HOLDINGS BHD	26/7/2005	1540000
208	EWEIN BERHAD	21/2/2011	2250000
209	GSB GROUP BERHAD	30/7/2009	5000000
210	HONG LEONG INDUSTRIES BHD	17/11/2010	4.10E+08
211	HONG LEONG INDUSTRIES BHD	26/3/2010	17479812
212	GUOCOLAND (MALAYSIA) BERHAD	8/11/2011	30043000
213	GUOCOLAND (MALAYSIA) BERHAD	24/4/2008	1666000
214	GUOCOLAND (MALAYSIA) BERHAD	8/8/2007	71000000
215	GUOCOLAND (MALAYSIA) BERHAD	3/11/2006	82990000
216	TASEK CORPORATION BERHAD	23/12/2009	24800000
217	TASEK CORPORATION BERHAD	29/3/2006	2000000

218	HUAT LAI RESOURCES BHD	24/12/2008	6100000
219	IOI CORP.BHD	29/8/2008	5.87E+08
220	IOI CORP.BHD	18/3/2008	4.40E+08
221	IOI CORP.BHD	7/12/2006	4.23E+08
222	IOI CORP.BHD	1/9/2006	21304639
223	IOI CORP.BHD	22/7/2004	89187686
224	JMR CONGLOMERATION BHD	30/12/2009	3380000
225	KHIND HOLDINGS BHD	27/1/2011	8000000
226	KIM LOONG RESOURCES BERHAD	1/12/2009	25000000
227	KOBAY TECHNOLOGY BHD	29/10/2008	1000000
228	MTD ACPI ENGINEERING BERHAD	16/2/2006	88000000
229	METACORP BHD	16/11/2006	10705048
230	METACORP BHD	20/9/2004	4155000
231	NILAI RESOURCES GROUP BERHAD.	30/12/2010	6930000
232	PROGRESSIVE IMPACT CORP. BHD	11/2/2008	2000000
233	QL RESOURCES BHD	16/5/2008	6680000
234	QL RESOURCES BHD	7/9/2005	3800000
235	QL RESOURCES BHD	18/7/2005	6400000
236	QL RESOURCES BHD	22/7/2002	4690121.3
237	SAPURACREST PETROLEUM BHD	2/6/2009	8480000
238	SARAWAK OIL PALMS BHD	11/5/2009	7000000
239	SARAWAK OIL PALMS BHD	21/1/2003	4250000
240	TIEN WAH PRESS HOLDINGS BHD	24/6/2009	12911875
241	TIEN WAH PRESS HOLDINGS BHD	1/7/2008	95800000
242	TIEN WAH PRESS HOLDINGS BHD	18/9/2007	27908000
243	TRADEWINDS CORP. BHD	3/10/2007	1000000
244	TRADEWINDS CORP. BHD	24/9/2007	15500000
245	TRADEWINDS (M) BERHAD	28/8/2009	5.26E+08
246	UNISEM M BHD	20/4/2007	2.41E+08
247	UNISEM M BHD	3/12/2003	68400000
248	UNITED PLANTATIONS BHD	25/4/2006	32844856
249	UNITED PLANTATIONS BHD	23/4/2002	4.41E+08
250	YTL CEMENT BHD	15/1/2010	1.50E+08
251	YTL CEMENT BHD	28/8/2007	69390000
252	YTL CEMENT BHD	12/9/2003	1.38E+08
253	YTL CORP. BHD	19/4/2010	93288000
254	YTL CORP. BHD	28/10/2008	6.29E+08
255	YTL CORP. BHD	12/10/2007	17500000
256	YTL CORP. BHD	11/6/2007	6000000
257	YUNG KONG GALVANISING INDUSTRIES BHD	9/3/2011	5555673.6
258	LION DIVERSIFIED HOLDINGS BERHAD.	25/6/2008	61550000
259	LION DIVERSIFIED HOLDINGS BERHAD.	28/9/2006	35120000
260	LION DIVERSIFIED HOLDINGS BERHAD.	22/8/2005	2.46E+08
261	LION DIVERSIFIED HOLDINGS BERHAD.	15/9/2005	29900000
262	LION DIVERSIFIED HOLDINGS BERHAD.	13/5/2005	5850000

263	LION FOREST INDUSTRIES BERHAD	27/5/2008	2.27E+09
264	LION FOREST INDUSTRIES BERHAD	27/3/2008	2730000
265	LION FOREST INDUSTRIES BERHAD	31/1/2005	2.25E+08
266	LION INDUSTRIES CORP. BHD	4/5/2011	36560000
267	PARKSON HOLDINGS BHD	28/9/2006	2.74E+08

A4 Regression Diagnostics on Base Model 5.6

variable	N	mean	sd	p50	max	min	skewness	kurtosis
Residuals	267	-2.14e-09	3.16819	-.196285	15.7772	-7.718657	.9962015	6.157873

Figure A4. 1: Summary Statistics of Regression Residuals for Model 5.6

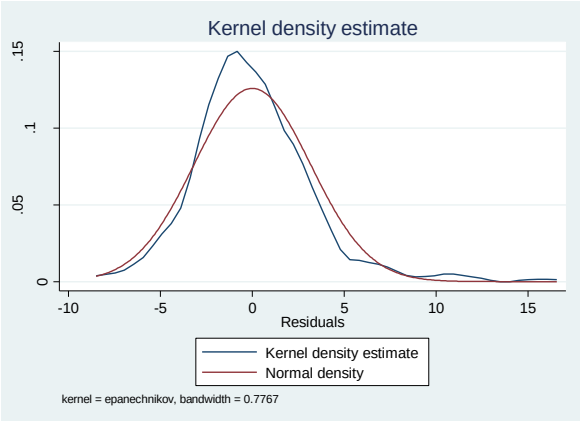


Figure A4. 2: Kernel Density of Model 5.6

```
                                                      Number of obs =     267
                                                      F(  2,   264) =   31.09
                                                      Prob > F      =  0.0000
                                                      R-squared     =  0.1906
                                                      Adj R-squared =  0.1845
                                                      Root MSE      =  3.1713

------------------------------------------------------------------------------
       CARiT |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
       _hat[A] |   .9515073   .1344179     7.08   0.000     .6868397    1.216175
     _hatsq[B] |   .0745703   .0614101     1.21   0.226    -.0463456    .1954862
       _cons |  -.1632956   .2421884    -0.67   0.501    -.6401622     .313571
------------------------------------------------------------------------------
       [A] _hat denotes the predicted CARiT
       [B] _hatsq denotes the squared predicted CARiT
```

Figure A4. 3: Link Test for Model 5.6

```
Ramsey RESET test using powers of the fitted values of CARiT
            Ho:  model has no omitted variables
                   F(3, 246) =      0.78
                  Prob > F =      0.5066
```

Figure A4. 4: RAMSEY Test for Model 5.6

Variable	VIF	1/VIF
LN_MVE	1.82	0.549088
F_Dual	1.63	0.613978
FamilyCEO	1.57	0.635940
DualCEO	1.57	0.637281
Fam_Ind	1.51	0.662433
Ind_Director	1.46	0.683212
Firmyear	1.44	0.693338
LN_RM	1.35	0.739711
Own	1.24	0.806081
FCF	1.19	0.837275
Crossborder	1.19	0.838933
Rpa	1.16	0.861514
Public	1.16	0.863775
non_related	1.12	0.890992
Pre_CAR	1.09	0.921324
Yr08_11	1.08	0.925552
Equity	1.08	0.929171
Mean VIF	1.33	

Figure A4. 5: VIF Test for Model 5.6

```
Durbin-Watson d-statistic( 18,   267) =  1.980416
      Outcomes: No Autocorrelation Detected
```

Figure A4. 6: Durban-Watson Tests for Autocorrelation

Table A4.1

Summary of Regression Diagnostic Results for Baseline Model 5.6

The baseline model is represented by the equation: $CAR_i = \alpha_i + \beta_{i1}\ Own_i + \beta_{i2}\ FamilyCEO_i + \beta_{i3}\ Fam\_Ind_i + \beta_{i4}\ F\_Dual_i + \beta_{i5}\ DualCEO_i + \beta_{i6}\ Ind\_Director_i + \beta_{i7}\ Rpa_i + \beta_{i8}\ Firmyear_i + \beta_{i9}\ Pre\_CAR_i + \beta_{i10}\ non\_related_i + \beta_{i11}\ FCF_i + \beta_{i12}\ LN\_MVE_i + \beta_{i13}\ LN\_RM_i + \beta_{i14}\ Crossborder_i + \beta_{i15}\ Public_i + \beta_{16}\ Equity_i + \beta_{17}\ Yr08\_11_i + \varepsilon_i$

	Market Model			**Market Adjusted Model**		
CARs	**(-1,+1)**	**(-2,+2)**	**(-3,+3)**	**(-1,+1)**	**(-2,+2)**	**(-3,+3)**
Link Test (on _hatsq – the variable of concern)	√ Not significant Coefficient 0.0745 T-stat 1.21	√ Not significant Coefficient 0.0248 T-stat 0.39	√ Not significant Coefficient 0.0288 T-stat 0.42	√ Not significant Coefficient 0.0709 T-stat 1.23	√ Not significant Coefficient 0.0715 T-stat 1.21	√ Not significant Coefficient 0.0443 T-stat 0.63
Ramsey Test	√ Not significant F= 0.78 P-value =0.5066	√ Not significant F= 0.12 P-value =0.9492	√ Not significant F= 1.56 P-value =0.1992	√ Not significant F= 1.34 P-value =0.2609	√ Not significant F= 0.76 P-value =0.5150	√ Not significant F= 0.46 P-value =0.7092
Multicollinearity	√ Mean VIF 1.33	√ Mean VIF 1.33	√ Mean VIF 1.33	√ Mean VIF 1.33	√ Mean VIF 1.33	√ Mean VIF 1.33
Durbin-Watson statistic	√ 1.9804	√ 2.0460	√ 2.0934	√ 1.9802	√ 2.0551	√ 2.1194

A5 GRANK Test

The GRANK test of Kolari et al. (2011) is described below.

Defining estimation period and event window period
Let day t=0 indicates the event day (corporate acquisition announcement day)
Let t = T_{0+1}, T_{0+2}, ... , T_1, refers to the estimation period.
Let T = T_{1+1}, T_{1+2}, ... , T_2, refers to event window period.
Let $L_1 = T_1 - T_0$ as the length of estimation period.
Let $L_2 = T_2 - T_1$ as the length of event window period.
Let $L_1 + L_2$, refers to combined length of estimation period and event window period.
Let *i* denotes each firm event.

Construction of abnormal returns ($AR_{i,t}$)
$AR_{i,t}$ denotes the abnormal return of event *i* on day *t*, as specified in *equation 5.2*.

Construction of standardized abnormal returns ($SAR_{i,t}$)
Standardized abnormal returns are defined as

$$SAR_{i,t} = \frac{AR_{i,t}}{S_{AR_i}} \quad \textbf{(A5.1)}$$

, where S_{AR_i} is the standard deviation of $AR_{i,t}$ during t of each *i*.

Construction of cumulative abnormal returns (CAR_{iT})
The cumulative abnormal returns of each *i* over T is defined

$$CAR_{iT} = \sum_{t=t_1+1}^{t_1+T} \mathrm{AR_{i,t}} \quad \textbf{(A5.2)}$$

, where $T_1 \leq t_1 \leq T_2 - T$, and $1 \leq T \leq L_2$.

Construction of standardized cumulative abnormal returns ($SCAR_{iT}$)
The standardized cumulative abnormal returns denotes $SCAR_{iT}$, which equals to aggregated $SAR_{i,t}$ through T.

Construction of standardized $SCAR_{iT}$ ($SCAR_i^*$)
$SCAR_{iT}$ denotes

$$SCAR_i^* = \frac{SCAR_{iT}}{S_{SCAR,T}} \quad \textbf{(A5.3)}$$

where,

$$S_{SCAR,T} = \sqrt{\frac{1}{n-1}\sum_{i=1}^{n}(SCAR_{iT} - \overline{SCAR}_T)^2}$$

$\overline{SCAR}_T = \frac{1}{n}\sum_{i=1}^{n} SCAR_{iT}$

Generalized standardized abnormal returns ($GSAR_{it}$)

The generalized standardized abnormal returns (GSAR) denotes

$$GSAR_{it} = \begin{cases} SCAR_i^* \text{ , } for\ t_1 + 1 \leq t \leq t_1 + T \\ SAR_{i,t} \text{ , } for\ t = T_0 + 1, \dots, t_1, t_1 + T + 1, \dots, T_2 \end{cases} \quad \textbf{(A5.4)}$$

Ranking the $GSAR_{it}$

Rank $GSAR_{it}$ as

$$U_{it} = Rank(GSAR_{it})/(T-1) - 1/2 \quad \textbf{(A5.5)}$$

, where

i = 1, … … , n

$t \in T = \{T_0 + 1, \dots, T_1, 0\}$ is the set of t during T and t=0 with the total number of t = $L_1 + 1$

$Rank(GSAR_{it})$ replaces $GSAR_{it}$ by rank number of 1, … , T.

Generating GRANK Test (t_{GRANK})

Given the null hypothesis of zero return announcement effect, the test statistic GRANK denotes:

$$t_{GRANK} = Z\left(\frac{T-2}{T-1-Z^2}\right)^{1/2} \quad \textbf{(A5.6)}$$

Where,

$$Z = \frac{\overline{U_0}}{S_{\overline{U}}}, \quad \textbf{(A5.7)}$$

$$S_{\overline{U}} = \sqrt{\frac{1}{T}\sum_{t\in T}\overline{U_t^2}} \quad , \quad \textbf{(A5.8)}$$

$$\overline{U}_t = \frac{1}{N}\sum_{i=1}^{N} U_{i,t} \quad \textbf{(A5.9)}$$

The asymptotic distribution of the test statistic GRANK is a Student-t distribution with T-2 degrees of freedom (with T is the total number of observations). The null distribution of t_{GRANK} approaches the standard normal distribution as T approaches ∞.

A6 Tests for Firm, Time and Industry Effect on Base Model 5.6

Table A6.1

Summary of Test Results for Firm Effect, Year Effect and Industry Effect on Baseline Model 5.6

The baseline model is represented by the equation: $CAR_i = \alpha_i + \beta_{i1}\ Own_i + \beta_{i2}\ FamilyCEO_i + \beta_{i3}\ Fam\_Ind_i + \beta_{i4}\ F\_Dual_i + \beta_{i5}\ DualCEO_i + \beta_{i6}\ Ind\_Director_i + \beta_{i7}\ Rpa_i + \beta_{i8}\ Firmyear_i + \beta_{i9}\ Pre\_CAR_i + \beta_{i10}\ non\_related_i + \beta_{i11}\ FCF_i + \beta_{i12}\ LN\_MVE_i + \beta_{i13}\ LN\_RM_i + \beta_{i14}\ Crossborder_i + \beta_{i15}\ Public_i + \beta_{16}\ Equity_i + \beta_{17}\ Yr08\_11_i + \varepsilon_i$. Column 1 reports the hypotheses for the examined fixed effect respectively. Column 2 and Column 3 report the F-value and probability of the F-value of the *test* command from *Stata*, respectively.

	F-Value	Prob>F
Firm Effect		
H_o: Common intercept for all firms H_A: Different intercept for all firms	F(128, 122) = 0.89	0.7486
Year Effect		
H_o: Common intercept for all years H_A: Different intercept for all years	F(9, 241) = 1.05	0.4012
Industry Effect		
H_o: Common intercept for all industries H_A: Different intercept for all industries	F(6, 243) = 1.31	0.2551