ID53

MERGERS AND ACQUISITIONS PERFORMANCE: EVIDENCE FROM TELECOMMUNICATION COMPANIES IN ASEAN MIDDLE-INCOME COUNTRIES

By:
SUHAILY MAIZAN ABDUL MANAF
NUR HAZLENDA SAMAD
WAN ANISABANUM SALLEH
ZETTY ZAHUREEN MOHD YUSOFF

INTRODUCTION

- Mergers and Acquisitions is a situation of two or more firms joining and becoming an entity to raise the capital base of the company as well as to search for a better development.
- Most companies are looking for a better position including how to create synergy in gaining profits.
- It is important to initiate an investigation on the performance of the M&A depending on the level of income for such countries.

- World Bank (2020) defined the income level as follows:
  (calculated by using the World Bank Atlas method):

1. Low-income economies – GNI per capita of $1,025 or less;
2. Lower middle-income - GNI per capita between $1,026 and $3,995;
3. Upper middle-income economies - GNI per capita between $3,996 and $12,375;
4. High-income economies - GNI per capita of $12,376 or more.

** GNI = Gross National Income*

No.	Country	GDP per capita (USD billion)	Status
1.	Singapore	61,767	High-income
2.	Brunei Darussalam	33,233	High-income
3.	Malaysia	11,237	Upper middle-income
4.	Thailand	6,992	Upper middle-income
5.	Indonesia	4,052	Upper middle-income
6.	Philippines	3,095	Lower middle-income
7.	Laos	2,076	Lower middle-income
8.	Vietnam	2,546	Lower middle-income
9.	Cambodia	1,499	Lower middle-income
10.	Myanmar	1,338	Lower middle-income

Source: The Edge Malaysia

Problem Statements

- The changing business climate has made it possible for the telecommunications and information technology (IT) industry to merge and work together, such as the management information system (MIS) to make the industry more service-oriented.

- However, telecommunications have not been widely investigated in some of the ASEAN countries, for example, Malaysia, especially in the field of financial management (Salleh, Wan Mahmood, Sufian, Othman, Yaacob, & Nair, 2016).

- The financial performance of the Malaysian telecommunications companies should be investigated together with the financial-ratio analysis, such as return on assets, liquidity ratio, total assets, and others (Lam et al, 2019).

- This research has tried to fill the gap by investigating the performance of mergers and acquisitions between telecommunications companies in the selected ASEAN middle-income countries as they are the most reliable group to be investigated due to their positions, which are between the high- and low-income levels.

LITERATURE REVIEW

Variable	Results/discussion	Source
Return on Assets (ROA)	Insignificant relationship	Ahmed & Ahmed (2014), Sujud & Hachem (2018)
	Positive significant	Rani, Yadav & Jain (2015)
	No significant difference	Long (2014), Abbas, Hunjra, Azam, Ijaz, Zahid (2014)
	No improvement	Shah & Khan (2017)

Continue…

Variable	Results/discussion	Source
Liquidity	Positive significant	Rani et al. (2015)
	Insignificant relationship	Ahmed & Ahmed (2014)
	No improvement	Azhagaiah & Thangavelu (2014), Abbas et al. (2014)
Size	Positive significant	Keresa (2016), Long (2014)
	Negative significant	Salleh, Wan Mahmood, Sufian, Mohd Jamarudi, Nair & Ahmad (2013), Salleh, Wan Mahmood, Sufian, Othman, Yaacob & Nair (2016)

Continue…

Variable	Results/discussion	Source
Growth	Positive significant	Azhagaiah & Thangavelu (2014), Oghuvwu & Omoye (2016), Akenga & Olang (2017)
Debt Level	Negative relationship	Long (2014), Abbas et al. (2014), Keresa (2016)

METHODOLOGY

- A set of 144-observation sample size from 2006 until 2017 has been derived from Thomson Reuters Eikon database, which has involved the dependent variable is Return on Assets (ROA) as a strong measurement for profitability, while independent variables are as follows:

  1. Liquidity (current ratio)
  2. Size (total asset)
  3. Growth (growth margin)
  4. Debt level (debt ratio)

- Population is middle-income ASEAN countries (Malaysia, Indonesia and Philippines).
- Panel data (Random Fixed Effect Regression) has been used for analysis.

RESULTS

Descriptive Statistic

Table 1: Statistical Description of the Study Variables

	ROA	Liquidity	Growth	Debt	LgSize
Mean	7.57	0.85	74.60	0.97	14.67
Maximum	22.48	2.71	96.80	2.21	18.07
Minimum	-4.86	0.36	0.00	0.33	9.20
Std. Dev.	5.94	0.37	19.29	0.45	3.36

Source: Own computations

From the table above, it is shown that the readings of the data statistics include mean, maximum, minimum, and standard deviation. The average ratio under this variable is 7.57% among the period starting from year 2006 until year 2017. The maximum value is 22.48% and the minimum result is -4.86%. Liquidity refers to the division of current assets and current liabilities. The average reading for liquidity is 0.85 times, the maximum reading is 2.71 times, while the minimum reading is 0.36 times. As for the standard deviation of liquidity, the figure is lesser than the mean, which is 0.37.

Continue…

The growth can be found from the gross margin from the firm itself, where the calculation can be measured by subtracting the cost of goods sold from the net sales and divided by the total revenue to get the percentage. The mean for growth is 74.60% and the maximum result is 96.8%. Moreover, the minimum reading is 0% under growth and the standard deviation is 19.29. On the other hand, the debt or leverage in this study is calculated by totaling the debts over the total of equity. The average ratio is 0.97%, the maximum record that can be found is 2.21%, while the minimum reading is 0.33%. The results that come out for standard deviation under debt is 0.45, which is lesser than the mean of measurement. In the interim, size is measured by natural logarithm total assets. The firm size shows an average of 14.67 units and the range for maximum is 18.07 units.

4.1 Pearson Correlations

The correlation is a statistical measure that indicates the extent to which two or more variables fluctuate together. There are two directions in a correlation, and it can be either positive or negative.

Table 2: Pearson's Correlation of the Study Variables

	ROA	Liquidity	Growth	Debt	LgSize
ROA	1.00				
Liquidity	0.09	1.00			
Growth	0.27	-0.18	1.00		
Debt	-0.66	-0.46	0.03	1.00	
LgSize	-0.18	0.15	0.18	-0.06	1.00

Source: Own computations

Referring to Table 2, the correlation between all the variables is presented. It shows that liquidity and growth have a positive relationship with the dependent variable. This indicates that those variables have a parallel relationship, which is when one variable increases or decreases, the other variable will increase or decrease in parallel. Besides, debt and size have a negative relationship with the dependent variable, while growth and liquidity have a stronger relationship as compared to the other variables.

Continue…

Referring to the table, it is shown that debt and size have a negative relationship with profitability with the values of -0.66 and -0.18 respectively. This means that when profitability increases, debt and size will decrease, and vice versa, as they have an inverse relationship with each other. However, liquidity and growth have a positive relationship with profitability values of 0.09 and 0.27 respectively.

Moreover, the relationship between the independent variables displays as when liquidity increases, growth and debt will decrease by 18.24% and 45.50% respectively. Conversely, for size, when liquidity increases, the size of the company will also increase by 0.15 units. In addition, the relationship between growth and the independent variables, which are debt and size, is positive. In the event that growth increases, debt and size will increase by 2.93% and 17.9% units in particular. Meanwhile, the increase of debt will affect the decrease of size by 0.06 units and vice versa.

4.2 Random Effect Results

Table 3: Random-Effect Results

ROA	Coefficient	Std error	z	P> z	95% Conf	Interval
Liquidity	-2.53	1.39	-1.81	0.07	-5.26	0.20
Growth	0.09	0.02	3.88	0.00	0.05	0.14
Debt	-10.03	1.12	-8.92	0.00	-12.23	-7.82
LgSize	-0.45	0.14	-3.28	0.001	-0.73	-0.18
No of groups		6				
Wald $chi^2(4)$		108.02				
Prob / chi^2		0.0000				
R-squared		0.6172				

Source: STATA results

- All the variables are significant towards profitability as the P-value of the t-stat is below 1% and 10% significant level.
- In the same way, it also shows that the F-stat is below 0.05, which means that the overall model and all variables are is significant.
- Besides, the overall R-squared shows that 61.72% of the variation changes in profitability can be explained by all the independent variables.
- It is found that only growth has a positive relationship towards profitability, as contrary to liquidity, debt, and size that have a negative relationship with the dependent variable.

Continue…

- Concerning growth, it is found to be significant towards profitability and has a positive relationship with profitability. When growth increases 1%, profitability will increase by 0.09%. The result is parallel with Azhagaiah and Thangavelu (2014), Oghuvwu and Omoye (2016), Akenga and Olang (2017), and Long (2014) that have found that growth has a positive relationship with the profitability of the firm.

- Azhagaiah and Thangavelu (2014) have stated that firms can expand their growth after the mergers and if they deduce it, they can utilise their internal assets to the maximum in order to maximise their profits. Thus, when growth increases, it will reflect the good performance of the firms as this shows that the profitability will increase in the same way.

Continue…

- For liquidity, the result is similar to the previous studies done by Abbas et al. (2014) and Azhagaiah and Thangavelu (2014) that have found that liquidity is negatively related with profitability.

- The negative sign indicates that the greater the liquidity of the firm is, the lesser the profitability of the firm. This infers that, after the mergers periods, the acquiring firms can pay their debts when they are due. Thus, the acquiring firms should focus more on reducing their debts in order to increase the efficiency of the profitability of the firms.

- Meanwhile, this result also contradicts to the study done by Rani et al. (2015) and Ahmed and Ahmed (2014) that have found a positive relationship between liquidity and profitability.

- Yet, the relationship is insignificant. Rani et al. (2015) have specified that the increase of a current ratio shows that current assets are higher than current liabilities and this will lead to profitability to grow better.

Continue…

- The debt level shows a negative relationship with profitability. Based on the result, when debt increases 1%, profitability will drop by 10.03%.

- This result is supported by previous studies done by Long (2014), Abbas et al. (2014), and Keresa (2016) that have claimed that debt has a negative relationship with profitability.

- Keresa (2016) has stated that when the firms carry many debts, then the performance of the companies will drop. It can be seen that the total amount of the debts used to operate the businesses is higher compared to its equity.

- Hence, it will bring a negative effect on the performance of the companies per se. However, when debt decreases, the firms have managed to stay on track with their production to operate their businesses and enjoy profitability.

Continue…

- Size has shown a negative relationship with profitability (Salleh et al., 2013; and Salleh et al., 2016).

- Likewise, after these mergers and acquisitions, the transactions incurred by the combination of companies are cost prohibitive and usually require an amount of time to be stable. Therefore, they need to have a prior strong relationship with existing alliances in order to increase the value of acquisition.

- Meanwhile, Keresa (2016) and Long (2014) has stated that the size of a company has a positive relationship with profitability.

- Keresa (2016) has proposed that companies that are going merger or acquired have a strong and greater size that has lead them to gain more profitability as there is a balance between the size and relatedness of their target corporation's technology that give them advantages during post-acquisition.

Continue…

- In a nutshell, the most significant factor variable in influencing profitability is debt.
- This is because debt has the highest t-stat value of 8.92 as compared to the other variables.
- As a result, this study has revealed that debt is the most significant factor in influencing the performance of telecommunication companies that have been involved in the mergers and acquisitions from the middle-income ASEAN countries.

CONCLUSION

- Based on the results obtained in this study, the Random Effect Regression Model has been selected as the final result. It can be concluded that only one independent variable has a positive relationship with profitability, which is growth, while the other three independent variables which are liquidity, debt, and size have a negative relationship with profitability.

- Besides, it also discloses that growth, debt, and size are significant at level 1%. Meanwhile, liquidity is significant at 10% level. This result has responded to the hypothesis of this study, which is all the null hypotheses are rejected while the alternate hypothesis is accepted.

- In addition, this study has finalised that debt is the most influencing one in making changes in profitability as compared to the other variables.

Continue…

- The objectives for this study has been achieved and it is also able to answer the research questions of this study.

- The purpose of this study is to examine the relationship between liquidity, size, growth, and debt level with return on asset (ROA) that influences the performance of telecommunication companies involved in the mergers and acquisitions in the selected middle-income countries.

- This study has also been done to determine the relationship between the independent variables (liquidity, growth, debt, and size) and the dependent variable (profitability) as well to determine the most significant factor towards profitability or return on assets.

- It can be claimed that liquidity, growth, debt, and size have a relationship with profitability, where growth has a positive relationship with profitability while liquidity, debt, and size have a negative relationship with profitability.

- It is also approved that debt is found to be the most significant factor influencing the changes in profitability. Thus, the research questions and research objectives have been answered undeniably based on the results achieved.

RECOMMENDATIONS

- It is more favourable if the analysis is tested individually on companies to indicate individual improvements on the companies' performance.
- Future researchers can obtain different perspectives in different countries when they find out more about other countries.
- It is also suggested that a study of pre and post M&A comparison and assess with other firms that do not experience M&A. Furthermore, it is also recommended to telecommunication companies that they should use mergers and acquisitions as one of their corporate extension strategies.

RECOMMENDATIONS

- Firms should also use other strategies, such as retrenchment and reorganising.
- The corporations which are profitable before combining their businesses can enhance their financial positions by making subsidiaries by embracing the strategy of group consolidation.
- The future researchers can also add more periods of years to get better results. This is one of the ways to obtain better outcomes and make the analysis of companies in different countries more interesting.
- Data-finding may also be contrasting to this study as the number of years are increased.

THANK YOU