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What Are Motives Behind Thai Takeover Decisions?

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Abstract: This study features motives for takeovers analyzed from takeover activities occurring in Thailand. The takeover motives were examined by detecting all three main motives: synergy, agency and hubris. The study investigates a long-window excess return or during a period of 12 months before and after the announcements by means of a number of metrics. For example, the market and market-adjusted models were used to estimate the returns for the bid period, the Cumulative Abnormal Return (CAR) was applied for the measurement of the returns of the target and bidding firms and the parametric test statistics were also used. The results show that the total gains of the two sets of firms are positive at 28.75% when estimated from the market-adjusted model suggest that the synergy is a major motive for the takeovers. Those of about 14.95% as evaluated from the market model indicate that the agency factors induce the takeovers. In addition to Roll's methodologies, the methods used in Bradley, Desai and Kim and Asquith were adopted for investigating the hubris motive. The evidence is robust and consistent with Asquith showing that the hubris is a potential rationale for the Thai takeovers. Finally, it is concluded that apparently, the synergy is the major motive and the agency as well as hubris rationales also provide potential explanations of the Thai takeover decisions.

Key words: Takeover motives, metrics, firms, hubris, rationales, decision

INTRODUCTION

Since, mergers and acquisitions are investors taken under conditions of uncertainty, it is not surprising that not all business combinations are successful. Past studies show that successful firms that combine businesses can benefit from economies of scale or economies of scope which is known as synergy but diversification for other reasons including agency and hubris tends to be less successful.

Specifically, synergies are viewed as the major motive for mergers and acquisitions because the wealth effects of the takeovers for both target and bidding firm's shareholders are positive (Mandelker, 1974, amongst others). Similar notions but different explanations have also been made for example by Dodd and Ruback (1977) who suggest that merging the real assets of the two firms results in an increased aggregate market value of the firms. Bradley *et al*. (1983) assert that the increase in the value of the target firms results from the transfer of control of the target resources and their reallocation subsequent to the acquisition. Likewise, Healy *et al*. (1992) suggest that acquisitions are value-enhancing when increased value stems from synergy benefits that are the results of better use of target firm's assets.

Studies state that acquisitions are undertaken when the value of the combined firm is greater than the sum of the values of the stand alone firms (Bradley *et al*., 1988; Seth, 1990a; Hayward and Hambrick, 1997). Some other studies posit that the additional value or synergistic gain is derived from an increase in operational efficiency, market power, financial advantages, tax considerations and other factors (Mandelker, 1974; Singh and Montgomery, 1987; Seth, 1990b).

However, according to Penrose (1959), underlying the synergy hypothesis is the general explanation for growth of the firm which describes the firm as a collection of productive assets and proposes that the long-term profitability of the firm is closely related to the growth in the productive opportunity of the firm such as the opportunity for using its assets more efficiently. There is ample evidence that is consistent with the synergy hypothesis; for example, the findings by Akbulut and Matsusaka (2003), Ghosh and Jain (2001), Gugler *et al*. (2003), Shleifer and Vishny (2003) and Rhodes-Kropf *et al*. (2005).

Nevertheless, self-interest of the bidding firm's management is also viewed as the prime rationale for takeovers. Morck *et al*. (1990) suggest that managers of bidding firms pursue personal objectives other than the maximization of shareholder wealth. Similarly, Holl and Pickering (1988) suggest that mergers reward bidding firm's managers who emphasize managerial objectives rather than shareholder objectives. Walkling and Long (1984) state that the existence or absence of managerial resistance to takeovers is directly associated with the target management's personal wealth changes due to the takeovers. This implies that managers engage in takeovers because of self-interest rather than shareholder interest.

There are various explanations for this motive. For example, managers' efforts to be involved in conglomerate mergers are viewed as an agency problem because the mergers do not benefit investors but benefit managers by reducing their employment risk or the risk of personal portfolios (Amihud and Lev, 1981; Baumol, 1959; Donaldson, 1984; Donaldson and Lorsch, 1983; Jensen and Meckling, 1976) or enable the managers to diversify the risk of their human capital or improve their security (Shleifer and Vishny, 1989) or make the manager indispensable to the firms (Shleifer and Vishny, 1988, 1989). Moreover, Mueller (1969) suggests that managers prefer to stimulate corporate growth rather than corporate value because their private benefits tend to be more substantial in the larger firms (Conyon and Murphy, 2002; Jensen, 1986; Jensen and Murphy, 1990; Stulz, 1990).

Clearly, past studies show that besides the motive of empire-building, there have been at least two other reasons put forward to explain why self-interested managers pursue beyond optimal expansion (Montgomery, 1994). First, managers direct a firm's diversification in a way that increases the firm's demands for his or her specific skills. This is consistent with the managerial entrenchment hypothesis argued by Shleifer and Vishny (1989). They suggest that in pursuing such interests, managers invest over the value-maximising level. Second, the diversification motive is based on the idea that shareholders can efficiently diversify their own portfolios but managers cannot efficiently diversify their employment risk. Hence, managers pursue diversified expansion in order to reduce total firm risk and then improve their personal positions which does not benefit the firm's shareholders. This is consistent with Amihud and Lev (1981) who suggest that acquisitions are viewed as a form of managerial privilege intending to decrease the risk associated with managerial human capital.

It is noted that their consequences are viewed as an agency cost (Montgomery, 1994). Some studies' findings are consistent with agency motives such as Firth (1980) (also finds hubris motives for takeovers in his study); Holl and Pickering (1988), Meyer *et al.* (1992), Mitchell and Lehn (1990), Scharfstein and Stein (2000) and Rajan *et al.* (2000).

In addition in hubris-motivated takeovers, the hubris hypothesis explains that the bidding firm's management either overestimate or underestimate the potential synergy. However, takeovers occur when the consequences are overestimated rather than underestimated. Therefore, there are no synergy gains or the synergy is supposed to be zero. Thus, the payment to the target represents a transfer between the target and the bidding firms. The higher the target's gains, the lower the bidding firm's gains and the total gains are zero. Roll (1986) states that managers of bidding firms are influenced by hubris as a result they overpay for target firms because they overestimate their own ability to run the firms. Specifically, the hubris hypothesis asserts that takeovers are motivated by manager's mistakes and they have no synergy gains.

Gondhalekar and Bhagwat (2000) refer to studies that embody similar ideas consistent with the hubris hypothesis. For example, Varaiya (1986) and Varaiya and Ferris (1987) report that bidding firms follow a strategy of hubris driven overpayment in takeovers. Kohers and Ang (2000) evidence that acquiring firms who use earnouts or pay part of the control premium only after the target firms are able to achieve pre-specified goals reduce the risk of misvaluing target firms and earn better returns than other acquiring firms. Moreover, these significant positive abnormal returns do not reverse over the subsequent 3 years. Some other studies provide evidence of hubris-driven takeovers such as those by Firth (1980), Hayward and Hambrick (1997), Hietala *et al.* (2003), Raj and Forsyth (2003) and Varaiya (1986) (there is evidence to indicate both hubris and managerial motives); partly by Bouwman *et al.* (2003) and Rosen (2006).

In conclusion, the synergy motive suggests that takeovers occur because of the economic gains that result from merging the resources of the two firms. The agency motive suggests that takeovers occur because they enhance the bidding firm management's welfare at the expense of bidding firm's shareholders. The hubris hypothesis suggests that managers make mistakes in evaluating target firms and engage in takeovers even when there is no synergy.

Forms of the event study methodology have been the predominant method used to measure share price responses to merger or takeover announcements. Numerous studies find that the merger and acquisition transaction delivers a premium return for the target firm's shareholders which are on average significantly positive in the range of 20-30% around the announcements. The evidence about returns achieved by bidding firm's shareholders is inconclusive with reports of negative, zero and positive abnormal returns. The negative returns vary between <1 to -7% and zero or positive returns ranging from 0-7%. Therefore, the results are inconclusive, though they suggest that we can view anticipated wealth creation as the likely rationale behind merger and acquisition decisions.

A number of studies attempt to explore the motives for takeovers by a variety of analyses; nevertheless, most of them have focused on takeovers occurring in the US, UK and other European countries rather than the rest of the world. Thus, it was justified to carry out a comprehensive study to examine this issue in a Thai context. This study based on a sample of successful

and unsuccessful tender offers. The analysis emphasized abnormal performance measurement by using monthly stock price data. The market and market-adjusted models were employed for the abnormal return estimation for the bid period of takeover announcement. The Cumulative Abnormal Return (CAR) and simple average abnormal return methods were also used for the measurement of the returns to the target and bidding firms.

This study is the first to explore motives behind Thai takeovers. The provided evidence shows that the takeover activities occurring in the stock market were driven by synergy, agency and hubris rationales. The study enriches the financial literature on emerging markets in terms of greatly enhancing results and provides a further comparison with developed stock markets.

Review of literature

Studies of the synergy motive: Studies on takeovers have testes the hypotheses and present the results of synergy motive for takeovers. For example, Mandelker (1974), Dodd and Ruback (1977), Bradley *et al.* (1983, 1988), Lang *et al.* (1989), Seth (1990b), Goergen and Renneboog (2002) and partly Bouwman *et al.* (2003) all support the synergy theory or the abnormal gains hypothesis. Meanwhile, Berkovitch and Narayanan (1993) and Gondhalekar and Bhagwat (2000) suggest that while synergy is the primary motive in takeovers, there is obvious evidence that takeovers are motivated by both agency and hubris motives.

However, some more recent studies propose that other reasons drive takeovers. For example, Gugler *et al.* (2003) conclude that takeover increases market power. Rosen (2006) posits that managerial concerns operate in addition to investment sentiment which is consistent with Bouwman *et al.* (2003) in terms of negative long-term results indicating poor takeover decisions. However, the results are inconsistent with those by Jegadeesh and Titman (1993) and De Long *et al.* (1990). Meanwhile, Dong *et al.* (2003) support the miss-valuation hypothesis which is consistent with Shleifer and Vishny (2003) in the sense that bidding firms make equity offers to over-valued target firms and with the Q hypothesis because rapidly growing targets will generate lower gains for bidders (Lang *et al*., 1989; Servaes, 1991). Rhodes-Kropf *et al.* (2005) support Dong *et al.* (2003) and Shleifer and Vishny (2003); however, there are some differences because Rhodes-Kropf *et al.* (2005) propose a rational theory based on correlated misinformation but Shleifer and Vishny (2003) propose a theory based on an irrational stock market in which managers are rational.

Thus, according to the findings summarized from fourteen studies, they reveal that ten studies obviously report synergy as the motive for takeovers; however two studies (Berkovitch and Narayanan, 1993; Gondhalekar and Bhagwat, 2000) also find that agency and hubris motives influence takeovers and the remainders suggest that other reasons explain takeovers such as investor sentiment and managerial motivations, market irrationality and managerial hubris and miss-valuation.

Studies of the hubris motive: Regarding Roll (1986) hubris hypothesis, managers of bidding firms are infected with hubris and unintentionally pay too much (takeover premium is a tender offer or merger price less pre-announcement market price of the target firm. The takeover premium reflects a random error or a mistake made by the bidding firm (Roll, 1986) for target firms. Takeovers reflect individual decisions thus irrational behaviour is independence across individuals which disappears from aggregated view. This is consistent with the perspective by Cyet and March (1963), March and Simon (1958) and Hayward and Hambrick (1997) who investigate the role of a Chief Executive Officer's (CEO) hubris and state that hubris infects exceptionally confident managers who over-estimate their ability to extract takeover benefits and consequently pay a large premium (takeover premium is defined as the ratio of the ultimate price paid per target share divided by the price before takeovers (Hayward and Hambrick, 1997) for takeovers. In addition, there have been other studies that discuss the hubris motive. For example, Raj and Forsyth (2003) suggest that past successes of hubris driven management lead them to arrogance and a feeling of superiority, overestimation of the possible synergies or value creation benefits from takeovers, resulting in unnecessary overpayment. The evidence shows that the premium paid by the bidding firm signifies how much value can be drawn from the target firm such as Jensen (1993) and Barnes (1998). Varaiya and Ferris (1987), Giliberto and Varaiya (1989) suggest that bidding firms overpay in takeovers. Other studies such as Firth (1980), Varaiya (1986), Malatesta (1983) and Hietala *et al.* (2003), amongst others also present the hubris motive for takeovers.

Studies of the agency motive: Another perspective of overpayment is that managers of bidding firms pursue personal objectives other than the maximization of shareholder value or this is known as the agency problems or managerial objectives for takeovers as suggested by Holl and Pickering (1988) and Morck *et al.* (1990).

Morck *et al.* (1990) focus on two aspects of acquisition strategies that can be understood in terms of managerial objectives: buying growth and diversification. Also, the relationship between bidders' past performance and their returns from takeovers is investigated. The

evidence shows that the returns for bidding firm's shareholders are lower when their firms have unrelated diversification, when the bidder buys a rapidly growing target and when its managers performed poorly before the acquisition. The findings are consistent with Lang *et al.* (1989) who suggest that firms with better managers are also better acquirers but inconsistent with Roll's hypothesis that managers of better performing firms are more arrogant and therefore overestimate the target's value.

Seyhun (1990) provides a test of conflict of interest hypothesis by examining the stock transactions of top managers of bidding firms for their personal accounts to indicate their motivations for takeovers. The findings show that before takeover announcements, top managers increase their net purchase rather than sales. Also, they purchase more shares when the share price reaction to the takeover announcement is large and positive than when it is large and negative. The results do not support the hypothesis that bidding firms' managers knowingly pay too much for target firms or conflict of interest is not a primary motive for corporate takeovers. At the same time, hubris is not a rationale for corporate takeovers either.

Obviously, all previously discussed results are those of studies of developed stock markets. There has been no Thai study that has analyzed or even mentioned takeover motivation. To fill the gap, compare results with other takeover motive studies of developed stock markets and enrich literature, this was justified to examine the takeover motives in the Thai context. Furthermore, to be a more completed study compared to any studies that only emphasize on the synergy, agency or hubris motive, the three main motives were investigated. This is consistent with the suggestion by Hayward and Hambrick (1997) that hubris motive investigating has been abandoned by studies. Finally, this study makes contributions to the literature on the whole in terms of a variety of results for takeovers added to this area for emerging markets.

MATERIALS AND METHODS

This study uses stock price data rather than accounting data for the takeover performance measurement. There are significant sources of data set out as follows:

- The list of total companies listed on the SET at any point of time during the period 1991-2003, the list of delisted companies and the list of companies traded under the rehabilitation sector or "REHABCO" were obtained from the SET
- All tender-offer statistics between August 1992 and October 2002 were obtained from the Securities and Exchange Commission, Thailand (SEC)
- The datastream database was used to provide information about the stock prices of the sample firms

The study is largely based on a sample of successful tender offers. The analysis emphasizes abnormal performance measurement by using monthly stock price data. The firm's stock price reaction to the takeover announcement was estimated as the rate of abnormal return to the shareholders of the target and bidding firms. The abnormal return was defined as the difference between the realized return observed from the market and the benchmark return over the period around the takeover announcements. Also, it was defined "at the announcement of takeovers" or "around the takeover announcements" as the event-window of the examination.

The event period was the bid period or -12, 0, +12 months, month '0' was defined as the event month and the event month was defined as the submission month of the tender offer by the bidder to the SEC or the month that the proposal was filed at the SEC. The analysis is based on the tender offer statistics obtained from the SEC between 1992 and 2002. The sample firms were classified according to whether they were involved as a target or bidder.

In the time selected, the takeovers on the SET involved 151 tender offers (151 targets and 74 bidders). From this database, a sample was set up according to the following criteria:

A tender offer was classified as being successful if the bidder increased its holding of the target shares or purchased at least some (the control of a firm can increase continuously from none for those who own no shares to complete for those who own 100% of the target's shares or voting rights operations (Bradley *et al.*, 1988; Dodd and Ruback, 1977). In this study, the bidders hold the target shares approximately 28.19% before they tender an offer and/or offers, then the purchased target shares of about 28.99% finally result in their target share holding of 57.18% on average) of the outstanding target shares that were tendered for. Thai security legislation defines a proportion above 25% of the target shares' holdings as a 'strategic shareholder' and the bidder is required to tender an offer for the total remaining outstanding shares of the target.

Any tender offer was excluded from the sample when it occurred with the purpose of a de-listing (there are about 22.52% of the total tender offers engaged with delisted purposes and approximately 60.78% of the total delisted companies are caused by mandatory delisting). Some cases were also deleted when the tender offer was cancelled later or the target firm was in the process of delisting.

The survivorship period of time required in this study is the period over -48, +16 months due to the limitation of available stock price data. These selection criteria reduced the initial sample from 151 tender offers to 52 tender offers (52 target firms) and 28 tender offers (42 bidding firms).

To examine the effect of the event on each stock, i, control is made for the normal relation between the return on stock i during month t and the return on the market index R_m:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad (1)$$

Where:
R_{it} = The return of stocks
R_{mt} = The return of market index
α_i = The intercept term
β_i = The systematic risk of stocks
ε_{it} = The error term

The market model was selected as an expected return model and the OLS (Ordinary Least Squares) regression was used in regression of the stock return over 3 years of the estimation period against the return on the valued weighted SET index for the corresponding calendar months. The SET index is calculated from all stocks listed on the SET and is a market capitalization weighted index that was used as the market index. The regression yielded the intercept term and a measure of systematic risks that then result in the ability to calculate an abnormal return or a residual. In each event related month for each sample stock. Month 13 (or 0) was determined as the event month and calculated 25 abnormal returns on each stock over the period around the takeover announcements from month 1 (-12) through to month 25 (+12). This interval is the event window for the bid period investigation of this study. The impact of the event on stock returns was examined through a number of stocks that were affected by the takeover announcements at the event time. The Abnormal Returns (ARs) were averaged as:

$$AAR_t = \frac{1}{n}\sum_{i=1}^{n}\varepsilon_{it} \quad (2)$$

where, n is the number of stocks (firms). The accumulated effect of the event was examined using the CAAR measure. The values of the AARs were continuously cumulated for every month from T_1 (month 1 or -12) to T_2 (month 25 or +12) as:

$$CAAR = \sum_{t=T_1}^{T_2} AAR_t \quad (3)$$

The market-adjusted model was another expected return model used for this study:

$$R_{it} = \beta_i R_{mt} + \varepsilon_{it} \quad (4)$$

Where:
R_{it} = The return of stocks
R_{mt} = The return of market index
β_i = The systematic risk of stocks
ε_{it} = The error term

All the calculation procedures are the same as those applied with the market model as previously described. Also, the CAR Method was used with the market-adjusted model.

To test the null hypothesis that the mean cumulative is equal to zero for a sample of n firms, the study employed two parametric test statistics: standardized-residual test and standardized cross-sectional test.

The standardized residual is the event-period residual scaled by the standard deviation of the estimation-period residuals. The test statistic is the sum of the standardized residuals divided by (approximately) the square root of the number of sample firms. The actual denominator is:

$$\sqrt{\sum_{i=1}^{N}\frac{T_i-2}{T_i-4}}$$

Where:
T_i = The number of days (months) in security i's estimation period
N = The number of firms in the sample

If for most firms there are a large number of days (months) in the estimation period:

$$\sum_{i=1}^{N}\frac{T_i-2}{T_i-4} \approx N$$

$$t = \sum_{i=1}^{N}\frac{SR_{iE}}{\sqrt{\sum_{i=1}^{N}\frac{T_i-2}{T_i-4}}} \quad (5)$$

Or:

$$t = \sum_{i=1}^{N}\frac{SR_{iE}}{\sqrt{N}} \quad (6)$$

Where:
SR_{iE} = The standardized residual
T_i = The number of days (months) in security i's estimation period
N = The number of firms in the sample

The standardized cross-sectional test statistic is the average event-period standardized residual divided by its contemporaneous cross-sectional standard error:

$$t = \frac{1}{N}\sum_{i=1}^{N}SR_{iE}\sqrt{\frac{1}{N(N-1)}\sum_{i=1}^{N}\left(SR_{iE}-\sum_{i=1}^{N}\frac{SR_{iE}}{N}\right)^2} \quad (7)$$

A number of studies investigate the motives behind takeovers by looking at average abnormal returns such as Akbulut and Matsusaka (2003), Bradley *et al.* (1988), Gregory (1997), Malatesta (1983), Roll (1986) and Lang *et al.* (1989). Some studies examine rationales for takeovers by stock prices and accounting data then measure stock returns and operating returns such as Agrawal and Jaffe (2002) and Matsusaka (1993) using stock returns, sales growth and income growth such as Morck *et al.* (1990) by stock returns and operating cash flow returns on assets such as Healey *et al.* (1992) by profits and sales such as Gugler *et al.* (2003). Some other studies investigate the performances by regression correlation such as Berkovitch and Narayanan (1993), Firth (1980), Goergen and Renneboog (2002), Gondhalekar and Bhagwat (2000), Gupta *et al.* (1997) and Seth *et al.* (2000).

According to the past studies discussed in the previous section, nearly half of them present the three main takeover motive theories: synergy, agency and hubris but some propose their individual theories even very close related with those main motives. When considering the methodologies employed for the motive investigations even though some of them have either the same or different ways of applying the research methods, many of them have much broader examinations in which the three main motives are the primary motives investigated, few studies specifically focus on the synergy, agency or the hubris motive regarded as being more likely to be the takeover motive.

For studies only emphasizing on synergy investigations, most past studies use average gains to target firms, bidding firms and total gains as the main methodologies meanwhile, more recent studies use different methodologies such as correlation analysis or a combination of the two mentioned methods and the proposed individual methodologies. Specifically, in addition to applying average gains to target and/or bidding firms to indicate the motives for takeovers such as studies by Akbulut and Matsusaka (2003), Asquith (1983), Bradley *et al.* (1982, 1983), Bradley (1980), Dodd (1980), Dodd and Ruback (1977), Jensen and Ruback (1983), Mandelker (1974) and Roll (1986) or even using the matched pairs of target and bidding firms such as those by Bradley *et al.* (1988), Malatesta (1983) and Seth (1990b) even some different ideas such as Leeth and Borg (2000), Matsusaka (1993) and Seth *et al.* (2000) to indicate the motives of takeovers, other different methodologies are also developed and applied in more recent studies. For example, Balmaceda (2003) introduces Balmaceda's Model; Bhagat *et al.* (2004) suggest the probability scaling method and the intervention method.

For studies concerning the agency motive or hubris investigations, varieties of methodologies have been employed and they can be classified into six categories of similar methodologies. These include the methodologies applied by Firth (1980) which is similar to that by Morck *et al.* (1990) and Varaiya (1986) which is in accordance with those of Malatesta (1983) and Matsusaka (1993) by Varaiya and Ferris (1987) which is in line with those by Varaiya (1986), Giliberto and Varaiya (1989), Hietala *et al.* (2003) and Raj and Forsyth (2003), Roll (1986), Schwert (1994), Hayward and Hambrick (1997) and Seyhun (1990).

Meanwhile, more recent studies look at different rationales for takeover decision investigations which may be at the level of or partly similar to or related with the three main motives for takeovers. These include studies such as Bouwman *et al.* (2003), Ghosh (2002) and Rosen (2006), amongst others. At least, the reported outcomes are related to those of the three motive takeovers in either direct or indirect ways, Bouwman *et al.* (2003), Dong *et al.* (2003), Rhodes-Kropf *et al.* (2005) and Rosen (2006) are examples.

Chevalier (2000) points out that one needs to look at the total gains (average target and bidder returns) to assess whether diversification creates or destroys value. These methods have been mostly used in various historical studies and several later studies either in case of separating measuring abnormal returns to target and/or bidding firms or the total gains of target and bidding firms.

Specifically, this study primarily focuses on Thai takeover motives analyzing from takeover activities occurring during 1992-2002. The takeovers were examined by detecting all three main motives: synergy, agency and hubris. Apart from using the traditional methods to investigate the hubris motive, Roll (1986) methodologies were also the choice. Even though, Hietala *et al.* (2003) methodologies or similarly those by Giliberto and Varaiya (1989), Raj and Forsyth (2003), Varaiya (1986) and Varaiya and Ferris (1987) are interesting ways of investigating a takeover contest or competitive bid (this analysis of the overpayment effect indicates whether or not the hubris motive is pronounced as a takeover motive as explained in the section on studies of the hubris motive), this study experiences the data limitation of having very few cases of those bids. Thus, this research uses Roll (1986) methodologies and applies methods that look at target firm's abnormal returns, bidding firm's abnormal returns and total abnormal returns for assessing whether they are positive or negative.

Moreover, according to Roll (1986) suggestion that studies by Bradley *et al.* (1983) and Asquith (1983) have more straightforward implications for the hubris hypothesis to benefit the robust findings, these methods were also adopted. That is unsuccessful target firms were investigated as the studies by Bradley *et al.* (1983) and

Asquith (1983) even having only two unsuccessful target firms are included in the sample. Also, successful bidding firms were examined as the study by Asquith (1983), 39 successful bidding firms are included in the sample. Finally, the results are presented in the following study.

RESULTS AND DISCUSSION

The following sectors present the results of the market and market-adjusted model analyses for the bid period, -12, +12 months for the target and bidding firms. The results are shown and explained in terms of the performances of the Cumulative Average Abnormal Returns (CAARs) and then used for analyses to indicate the motives for Thai takeover decisions.

The results show that in the announcement month, the target firm's shareholders gain the positive CAARs of average 30.80% when estimated from the market model and 31.10% as estimated from the market-adjusted model. Meanwhile, the bidding firm's shareholders experience the negative CAARs at -0.90% as estimated from the market model and positive at 26.40% when estimated from the market-adjusted model. Even though, the abnormal returns estimated from the two models for the bidding firm's shareholders are substantial different, either one is consistent with most past studies revealing evidence of negative, zero or positive abnormal returns to bidding firms (Table 1).

To measure the total gains of the target and bidding firms, this study applies a simple average method which is similar to that used by Jensen and Ruback (1983) to survey and summarize the findings of past studies. According to the reported results on abnormal returns for the bid period to the target and bidding firms, the total gains of the event firms' shareholders are positive at 14.95 and 28.75% as estimated from the market and market-adjusted models respectively or approximately indicate takeovers create values. The results confirm the findings of past studies including the study by Akbulut and Matsusaka (2003) even when using the different methods: simple average and weighted average and are consistent with Jensen (2006) (Table 2).

Table 1: This table presents the monthly Average Abnormal Returns (AARs) and the Cumulative Average Abnormal Returns (CAARs) to target and bidding firms for tender offers occurring from 1992-2002. The measurement of the takeover announcement effects on the firms, the realized returns for the target and bidding firms' shareholders for the bid period -12, +12 were measured by the market model. The AARs are monthly abnormal returns for the target and bidding firms' shareholders from 12 months before the event month until 12 months after the event month. These were estimated then cross-sectional averages in each month were calculated over the number of the firms. The CAARs are the AARs which are accumulated from the first month of the investigation period until the last month of the period. For target firms, this table demonstrates the performances of total target firms and unsuccessful target firms. For bidding firms, the table shows the performances of total bidding firms, successful and unsuccessful bidding firms. The sample sizes (N) for the target and bidding firms for each alternative are presented in the parentheses

	Market model									
	Target firms				Bidding firms					
	Total (52 firms)		Unsuccessful (2 firms)		Total (42 firms)		Successful (39 firms)		Unsuccessful (3 firms)	
Event months	AARs	CAARs	AARs	CAARs	AARs	CAARs	AARs	CAARs	AARs	CAARs
-12	0.021	0.021	-0.0530	-0.053	0.020	0.020	0.029	0.029	-0.084	-0.084
-11	0.013	0.034	0.0549	0.002	0.040	0.060	0.046	0.075	-0.045	-0.129
-10	0.003	0.037	0.0140	0.016	-0.050	0.010	-0.051	0.024	-0.047	-0.177
-9	-0.019	0.019	0.1600	0.176	-0.024	-0.014	-0.025	-0.000	-0.011	-0.188
-8	-0.031	-0.013	0.0060	0.182	-0.025	-0.039	-0.020	-0.021	-0.086	-0.274
-7	0.011	-0.002	0.0190	0.201	-0.000	-0.039	-0.006	-0.026	0.072	-0.202
-6	0.003	0.001	-0.1330	0.068	0.002	-0.037	0.004	-0.023	-0.018	-0.219
-5	0.028	0.028	0.0280	0.096	-0.027	-0.064	-0.028	-0.051	-0.006	-0.225
-4	0.013	0.041	0.0720	0.167	-0.005	-0.068	-0.001	-0.052	-0.052	-0.277
-3	-0.002	0.039	-0.0650	0.103	0.060	-0.008	0.061	0.009	0.054	-0.223
-2	0.026	0.065	0.0610	0.164	0.015	0.007	0.022	0.030	-0.073	-0.296
-1	0.105	0.170	0.0820	0.246	0.003	0.010	0.009	0.039	-0.080	-0.376
0	0.137	0.308	-0.0170	0.229	-0.019	-0.009	-0.018	0.021	-0.035	-0.411
+1	0.063	0.371	0.2910	0.520	-0.024	-0.033	-0.025	-0.004	-0.002	-0.414
+2	-0.008	0.363	-0.0000	0.520	-0.039	-0.072	-0.035	-0.039	-0.083	-0.497
+3	0.030	0.394	0.1040	0.623	-0.021	-0.093	-0.025	-0.064	0.026	-0.471
+4	-0.013	0.381	-0.0480	0.576	0.012	-0.081	0.016	-0.047	-0.050	-0.521
+5	-0.005	0.375	-0.0160	0.559	-0.036	-0.117	-0.036	-0.083	-0.041	-0.563
+6	0.025	0.401	0.0040	0.563	-0.060	-0.178	-0.059	-0.142	-0.078	-0.640
+7	-0.038	0.362	-0.0890	0.475	-0.021	-0.199	-0.022	-0.164	-0.008	-0.648
+8	0.010	0.373	0.0700	0.545	-0.040	-0.238	-0.041	-0.206	-0.009	-0.658
+9	0.048	0.420	0.0100	0.555	-0.018	-0.256	-0.012	-0.218	-0.097	-0.755
+10	0.017	0.438	0.1650	0.719	0.000	-0.256	0.004	-0.214	-0.045	-0.800
+11	-0.026	0.412	0.0870	0.806	-0.001	-0.257	0.005	-0.209	-0.074	-0.874
+12	-0.004	0.407	0.0810	0.887	-0.031	-0.288	-0.031	-0.240	-0.033	-0.906

Table 2: This table presents the monthly Average Abnormal Returns (AARs) and the Cumulative Average Abnormal Returns (CAARs) to target and bidding firms for tender offers occurring from 1992-2002. The measurement of the takeover announcement effects on the firms, the realized returns for the target and bidding firms' shareholders for the bid period -12, +12 were measured by the market-adjusted model. The AARs are monthly abnormal returns for the target and bidding firms' shareholders from 12 months before the event month until 12 months after the event month were estimated. The cross-sectional averages in each month calculated by the number of the firms are shown. The CAARs are the AARs which are accumulated from the first month of the investigation period until the last month of the period. For target firms, this table demonstrates the performances of total target firms and unsuccessful target firms. For bidding firms, the table shows the performances of total bidding firms, successful and unsuccessful bidding firms. The sample sizes (N) for the target and bidding firms for each alternative are presented in the parentheses

	Market-adjusted model									
	Target firms				Bidding firms					
	Total (52 firms)		Unsuccessful (2 firms)		Total (42 firms)		Successful (39 firms)		Unsuccessful (3 firms)	
Event months	AARs	CAARs	AARs	CAARs	AARs	CAARs	AARs	CAARs	AARs	CAARs
-12	0.027	0.027	-0.044	-0.044	0.045	0.045	0.052	0.052	-0.045	-0.045
-11	0.021	0.048	0.022	-0.022	0.059	0.104	0.060	0.112	0.043	-0.002
-10	0.007	0.055	0.017	-0.005	-0.019	0.085	-0.022	0.090	0.018	0.017
-9	-0.010	0.045	0.135	0.130	0.006	0.090	0.002	0.092	0.049	0.066
-8	-0.023	0.022	-0.036	0.094	0.004	0.095	0.002	0.095	0.030	0.096
-7	-0.006	0.016	0.003	0.096	0.033	0.128	0.028	0.122	0.110	0.206
-6	-0.007	0.009	-0.191	-0.095	0.010	0.139	0.005	0.127	0.081	0.287
-5	0.011	0.020	0.062	-0.033	-0.028	0.110	-0.028	0.099	-0.028	0.258
-4	0.021	0.040	0.047	0.014	0.022	0.132	0.027	0.126	-0.047	0.212
-3	-0.001	0.039	-0.037	-0.023	0.064	0.196	0.065	0.191	0.056	0.267
-2	0.045	0.084	0.063	0.040	0.035	0.231	0.037	0.228	-0.001	0.266
-1	0.099	0.183	0.053	0.093	0.039	0.270	0.041	0.269	0.017	0.283
0	0.128	0.311	-0.016	0.077	-0.006	0.264	-0.008	0.262	0.008	0.291
+1	0.048	0.359	0.262	0.339	-0.012	0.252	-0.015	0.247	0.029	0.320
+2	0.012	0.371	-0.019	0.320	-0.017	0.235	-0.017	0.230	-0.023	0.297
+3	0.026	0.397	0.098	0.418	-0.014	0.221	-0.020	0.210	0.069	0.367
+4	0.010	0.407	-0.037	0.381	0.018	0.239	0.022	0.232	-0.038	0.329
+5	0.001	0.408	0.005	0.386	-0.034	0.205	-0.034	0.198	-0.042	0.288
+6	0.048	0.457	-0.011	0.374	-0.051	0.154	-0.053	0.146	-0.025	0.262
+7	-0.052	0.405	-0.089	0.285	-0.003	0.151	-0.005	0.140	0.021	0.284
+8	0.023	0.428	0.067	0.352	-0.022	0.129	-0.023	0.117	-0.005	0.278
+9	0.045	0.473	0.008	0.361	0.008	0.137	0.013	0.130	-0.055	0.223
+10	0.021	0.493	0.131	0.492	0.025	0.162	0.025	0.155	0.022	0.245
+11	-0.017	0.476	0.067	0.559	0.023	0.185	0.026	0.181	-0.015	0.231
+12	-0.006	0.470	0.066	0.625	-0.002	0.183	-0.005	0.176	0.042	0.273

Regarding the reported results of takeover effects around the announcement on the event firms, the 28.75% which are derived from the positive CAARs of 31.10 and 26.40% to the target and bidding firms, clearly explains that the motive for takeovers is synergy. Meanwhile, the 14.95% which are obtained from the positive CAARs of 30.80% and negative CAARs of -0.90% available to the target and bidding firms, obviously suggests that agency problems induce the takeovers. There are non-hubris factors because the negative abnormal returns for the bidding firm's shareholders are more than offset by the positive abnormal returns for the target firm's shareholders.

However, this study further investigated the hubris motive to try to establish whether there is also a motive for Thai takeovers. Therefore, the methods used by Bradley *et al.* (1983) and Asquith (1983) were adopted for analyzing the performances of the unsuccessful target firms in and post the takeover announcement month. The findings from the bid period investigations showed that in the takeover announcement month, the unsuccessful target firm's shareholders receive the positive CAARs of 7.70 and 22.90% when estimated from the market-adjusted and market models, respectively. At the same time, the returns are strongly sustainable as well as positively increased post the announcement month or the period +1, +12 and -12, +12. The CAARs over the period +1, +12 are positive at 54.80 and 65.80% and those over the period -12, +12 are positive at 62.50 and 88.70% as estimated from the market-adjusted and market models consecutively. The outcomes suggest that there is no hubris motive for the takeovers. Accordingly, the study also reveals that the successful bidding firms earn the positive CAARs over the period -12, -1 of 3.90% as estimated from the market model and 26.90% when estimated from the market-adjusted model and the unsuccessful bidding firms earn the negative CAARs over the period -12, -1 of -37.60% when estimated from the market model and positive CAARs over the period -12, -1 of 28.30% as estimated from the market-adjusted model. The results are mixed, due to the inconsistent larger abnormal returns to the successful bidding firms, thus the evidence does not indicate that hubris is a motive for the takeovers (Table 3).

Table 3: This table presents the cross-sectional total and average monthly standardized abnormal returns (residuals) for the bid period -12, +12 for tender offers occurring from 1992-2002. Specifically, the realized returns for the firm's shareholders for the bid period -12, +12 were estimated from the market and market-adjusted models. The monthly abnormal returns for the successful bidding firm's shareholders from 12 months before the event month until 12 months after the event month were calculated. Then, the monthly abnormal returns were standardized and cross-sectionally summed and averaged to form the monthly total or the sum of the Standardized Residuals (TSRs) and the Average event-period Standardized Residuals (ASRs), respectively. The results show the monthly TSRs and ASRs for the successful bidding firm's shareholders. To test the significance of the monthly abnormal returns, the standardized-residual and standardized cross-sectional tests were applied. The t-statistics were calculated by means of the standardized-residual test and the standardized cross-sectional test, respectively. The t-statistics are the sum of the standardized residuals divided by (approximately) the square root of the number of sample firms and the average event-period standardized residual divided by its contemporaneous cross-sectional standard error respectively. The standardized residual equals the event-period residual divided by the standard deviation of the estimation-period residuals, adjusted to reflect the forecast error. The formulas are as follows $t=\sum_{i=1}^{N} SR_{it}/\sqrt{N}$, $t=1/N\sum_{i=1}^{N} SR_{it}/\sqrt{1/N(N-1)\sum_{i=1}^{N} SR_{it}-/N)^2}$. The sample size (N) for the successful bidding firms is presented in the parentheses; 36 and 25 months were selected for the estimation-period and event-window consecutively. The test statistics are shown in the parentheses below the values of the TSRs and ASRs

	Successful bidding firms (39 firms)			
	Market model		Market-adjusted model	
Event months	TSRs	ASRs	TSRs	ASRs
-12	16.711 (2.60)*	0.428 (1.42)	22.855 (3.55)**	0.586 (2.03)*
-11	131.321 (20.40)**	3.367 (1.43)	92.435 (14.36)**	2.370 (1.33)
-10	-15.302 (-2.38)*	-0.392 (-1.95)	-3.908 (-0.61)	-0.100 (-0.48)
-9	6.120 (0.95)	0.157 (0.28)	12.260 (1.90)	0.314 (0.58)
-8	-13.203 (-2.05)*	-0.339 (-0.78)	-5.237 (-0.81)	-0.134 (-0.29)
-7	-7.011 (-1.09)	-0.180 (-0.59)	6.669 (1.04)	0.171 (0.57)
-6	2.870 (0.45)	0.074 (0.29)	0.227 (0.04)	0.006 (0.02)
-5	-9.640 (-1.50)	-0.247 (-1.44)	-11.51 (-1.79)	-0.295 (-1.67)
-4	4.751 (0.74)	0.122 (0.51)	14.710 (2.29)*	0.377 (1.35)
-3	73.932 (11.49)**	1.896 (1.72)	59.556 (9.25)**	1.527 (1.54)
-2	27.981 (4.35)**	0.717 (1.22)	17.035 (2.65)*	0.437 (0.84)
-1	11.952 (1.86)	0.306 (0.74)	21.745 (3.38)**	0.558 (1.23)
0	-10.101 (-1.57)	-0.259 (-0.99)	-7.868 (-1.22)	-0.202 (-0.86)
+1	-3.724 (-0.58)	-0.095 (-0.54)	-0.451 (-0.07)	-0.012 (-0.06)
+2	-8.094 (-1.26)	-0.208 (-0.94)	-3.352 (-0.52)	-0.086 (-0.52)
+3	-7.871 (-1.22)	-0.202 (-1.04)	-10.141 (-1.58)	-0.260 (-1.57)
+4	55.432 (8.61)**	1.421 (1.08)	39.222 (6.09)**	1.006 (0.72)
+5	-22.449 (-3.49)**	-0.576 (-2.45)*	-23.179 (-3.60)**	-0.594 (-2.14)*
+6	-28.403 (-4.41)**	-0.728 (-3.90)**	-28.634 (-4.45)**	-0.734 (-3.14)**
+7	-3.712 (-0.58)	-0.095 (-0.52)	-0.045 (-0.01)	-0.001 (-0.01)
+8	-17.244 (-2.68)*	-0.442 (-1.90)	-13.251 (-2.06)*	-0.340 (-1.27)
+9	2.291 (0.36)	0.059 (0.29)	10.738 (1.67)	0.275 (1.23)
+10	8.840 (1.37)	0.227 (0.72)	12.455 (1.93)	0.319 (1.09)
+11	29.197 (4.54)**	0.749 (0.79)	28.263 (4.39)**	0.725 (0.87)
+12	-17.386 (-2.70)*	-0.446 (-1.63)	-6.310 (-0.98)	-0.162 (-0.69)

TSRs: Total or the sum of Standardized Residuals; *significant at 5% level; **significant at 1% level; ASRs: Average event-period Standardized Residuals; [1]significant at 10% level; [2]significant at 20% level

Nevertheless, the performance of the CAARs for the successful bidding firm's shareholders in the announcement month is considered to be another indicator for the takeover motive investigations. The results reveal that the CAARs over the period -12, 0 for the successful bidding firm's shareholders are positive at 2.10 and 26.20% when estimated from the market and market-adjusted models, respectively. At the same time, it is suggested that evidence from studies using monthly data is more difficult to interpret but the patterns are likely to be consistent with a negative return movement between the merger announcement and successful outcome and the merger outcome date could be included somewhere in the sample period. In this view, the results from this study suggest that the CAARs over the period +1, +12 for the successful bidding firm's shareholders are negative at -8.60 and -26.10% as estimated from the market-adjusted and market models consecutively. Another supportive result is that the CAARs over the period 0, +12 for the successful bidding firm's shareholders are negative at -9.40 and -27.90% when calculated from the market-adjusted and market models, respectively. Thus, it is clear that the evidence from these perspectives is robust and in accordance with that by Asquith (1983) which implies that this study also finds that hubris induces the takeovers.

In addition, it is worth noting that since, the notification of the Securities and Exchange Commission (SEC) determines that the period for tender offers shall be between 25 and 45 business days, the tender offer outcome is supposed to be known during the three months subsequent to the announcement. Also, there is

evidence that the monthly Average Abnormal Returns (AARs) for the successful bidding firm's shareholders are significant in month +4, +5 and +6. This is further, supported by previous studies showing that there is no significant market reaction for the first few months after a takeover. In this aspect, the study finds that the CAARs over the period -12, +3 for the successful bidding firm's shareholders are negative at -6.40% suggested by the market model and positive at 21% by the market-adjusted model then, these abnormal returns dramatically decline to about -17.60 and -3.40% to negative CAARs over the period -12, +12 of -24 and 17.60%, respectively. The findings are further coincident in the sense that there is no immediate market reaction after a takeover but within a year there are large negative abnormal returns. Therefore, this completely gives agreement with the past reported results and it is strongly asserted that this study also provides evidence indicating hubris is a plausible takeover motive. Hence, on the whole in addition to the synergy being a main motive for the takeovers, the evidence also suggests that the agency and hubris rationales induce the takeovers too.

CONCLUSION

This study focuses on Thai takeover motives measuring from takeover activities occurring during 1992-2002. The takeover motives were examined by detecting all three main motives: synergy, agency and hubris.

Specifically, the takeover effects were analyzed by the event study method and the market and market-adjusted models were used to calculate the abnormal returns for the bid period -12, +12 months. The Cumulative Abnormal Return (CAR) Method was used for the measurement of the returns or the Cumulative Average Abnormal Returns (CAARs) for the target and bidding firms' shareholders. The findings suggest that in the takeover announcement month, the takeovers generate substantial positive CAARs approximately of 31.10 and 30.80% and positive and negative CAARs of 26.40 and -0.90% when estimated from the market-adjusted and market models for the target and bidding firms' shareholders, respectively.

To investigate Thai takeover motives, the abnormal return direction (and magnitude) or sign (and size) were used as a means of indicating the potential motives for takeovers. Finally, the results show that the synergy is the major motive for the takeovers studied and that the agency and hubris rationales also provide potential explanations of the Thai takeovers.

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