Determinants of Firms’ Acquisition Ability and its Impact on Cost Efficiency, Operational Hedging and Returns of Acquirer Firms in Pakistan

Awan, Tahira

Social Sciences, Economics, Financial economics

2017

INTERNATIONAL ISLAMIC UNIVERSITY ISLAMABAD, PAKISTAN

The capital markets witness phenomenal shifts of corporate control. With the shift of world economy into a global one, there has been a rapid increase in the volume of acquisitions. The previous studies shed light on the motives behinds acquisition and its impact on both bidding and target firm. Less effort has been placed to check the ability of a firm dealing in market of corporate control. This study is bridging in the gap in literature by exploring the factors affecting the acquisition ability of the firm. The study has analysed the role of financial strength, corporate governance related variables and regulatory influence on acquisition ability of acquiring firm. Later on, impact of such acquisition ability has been tested on various firm characteristics like cost efficiency, returns and operational hedging of acquirer firms. Data has been analysed with respect to Pakistan stock Exchange for a period of 2004 to 2012. Empirical analysis indicates that firm specific variables are important determinants in firm’s decision to acquire. Chief Executive Officer duality and institutional shareholders presence on the board contributes to this important phenomenon in the life of the acquiring firms. Bidding firm’s financial strength is also another important considerations. The empirical results indicate the better acquisition ability for firms characterized by minimum capacity utilization, lower level of intangible assets, lower debt levels and lower advertising expenses. Acquisition announcement is an important event in the capital markets. The event study technique indicates the significant abnormal returns after 3 days of acquisition announcement. Cost efficiency has been analysed for bidding firms three years prior to the acquisition and three years post acquisition. Overall results suggest an improvement in the efficiency of financial firms after acquisition. Non-financial sector is indicating opposite results where most of the firms are showing declining trend in efficiency. The percentage change in operational volatility is accounted for as operational hedging. The empirical results show a large level decrease in the operational income volatility after the takeover deal. It shows that combined firm after acquisition bring the benefit of diversification thus reducing volatility and increasing operational hedging which may ultimately reduce financial hedging. So acquiring firms should analyse their strength before going for acquisition deal as acquisition impact their short term and long term performance. Key Words: Corporate Control, Acquisitions, Event Study, Data Envelopment analysis, Operational Hedging, Cost Efficiency, Abnormal Returns

http://prr.hec.gov.pk/jspui/handle/123456789/8364

PhD Thesis of All Public / Private Sector Universities / DAIs

Files in This Item:

<table>
<thead>
<tr>
<th>File</th>
<th>Description</th>
<th>Size</th>
<th>Format</th>
</tr>
</thead>
</table>
Whenever a firm focuses on the maximization in reviewing performance of a company. The results of shareholder wealth, always get proper care of its these assessments can be useful in evaluating the financing and investments [6]. efficiency of a company. Investment decision of the company shifts its effect in comparison to the financial management practice on share prices through dividend policy. The financially well-managed companies are highly cost firms using the debts represented its operationally efficient. This stands as a positive sign for commandment with production even without profits [20]. investors and regulatory authorities. 39 companies responded and returned financing decisions. Research results from compared working capital costs and returns of 22 quoted firms on the Nigerian Stock Exchange evidencing improved gross working capital positions using the difference between means show that costs of working capital exceed returns on working capital investments affecting their profitability. inventory costs, lost returns on excess cash holdings and receivables; and under investment with its attendant stock-out, illiquidity and bad debts costs; determine its working capital policies ensuring it improves corporate profitability; appraise investments in working capital using capital investment models, determining ahead the viability of such investment; and ascertain and compare working capital costs and benefits to determine the existence of.