

An Event Study of Announced and Completed Cross Border Acquisition in the Philippines: A Test of the Acquisition Probability Hypothesis

Frederick P. Romero

Abstract-This study uses the Acquisition Probability Hypothesis to analyze the consequences of cross-border acquisitions on the cumulative daily abnormal returns of target firms and their rivals from 1997-2009. Accordingly, rival firms of initial acquisition targets receive abnormal returns because of the increased likelihood that they will be targets themselves. The descriptive research design is used. The sampling frame includes all announced and completed acquisitions coursed through the Philippine stock exchange. The statistical tool used is the Event study methodology and significance was set at 5% significance level, two-tailed. The results showed that the target firms realized significantly positive abnormal returns over the 21-day, 11-day, 5-day, and 3-day event windows surrounding the announcement proposal period. Alternatively, the target firms' rival companies earned insignificant abnormal returns across all event windows. For deals where the acquisition proposals become completed, the targets and their rivals did not received any significant abnormal returns.

Keywords- Abnormal returns; Cross border acquisition; Event study

I. INTRODUCTION

During the last decade, the total volume of global cross-border acquisitions has been growing. The reason for these cross-border mergers are basically the same with the domestic mergers and acquisitions such as synergies, geographic scope, economies of scale, market power, and/or managerial preferences. However, there are some additional factors influencing these acquisition deals, especially if when looking at a broader perspective or in the international context. These additional factors may include cross-country differences in macroeconomic conditions, legal regimes, political systems, culture, regulatory environments, and tax systems. One motive for domestic M&A deals, which was previously documented by authors and researchers, is the differences in valuation between potential acquirers and targets, which is considered as a very important factor when looking on a global perspective since movements in country-level stock markets and currencies provide additional sources of valuation differences (Shleifer and Vishny 2003; Rhodes-Kropf and Viswanathan 2004;

Dong, Hirshleifer, Richardson and Teoh 2006; and Harford 2005).

Schmidt (2000) suggested that around 45% of acquisitions in recent years have been made across country borders. Seth, Song, and Pettit (2002) found those American firms have been the most acquisitive country outside their domestic market. This strategic option is now being exercised by companies globally, in reference to today's global market economy. To build shareholder value (i.e., to maximize the firm's share price) is the true reason for cross-border acquisition. Earnings and the market's opinion of those earnings (the price-to-earnings multiple, P/E) are the two components of a firm's share price, which the management should strive to grow, but these do not directly influence the market's opinion of its earnings. Investors, analysts, and institutional stakeholders over the long term period will look at the management and check if it is able to deliver the promises made in meetings, advertisements, annual reports, and at stockholders' meetings. So far, it is deemed described that the opinion of markets as reflected in P/E ratios is infamously fickle. Example of which was the rising share price of many dotcom firms before the bubble burst. Increasing the earnings per share (EPS) is within the direct control of the firm. Thus, management does directly affect firm's earnings. Modern managements cannot disregard the reality that they are obliged to look beyond their respective country's scope for value and growth since competition nowadays is fierce, margins are under continual pressure, and the growth potential of earnings is very scarce in many domestic markets.

There are certain advantages that cross-border acquisition provides. First, they are a quick answer to market entry barriers. Hitt and Pisano (2003) pointed out that those cross-border acquisitions may offer the quickest, and often the largest, initial international expansion of any of the alternatives. Furthermore, through access to technology, brand names valued in the target market and logistical and distribution advantages, cross-border acquisition provides a cost-effective way of earning competitive advantages for the firm, while at the same time getting rid of local competition. Lastly, target firms may tend to be undervalued due to the existence of market imperfections brought about by

DOI: 10.5176/2010-4804_4.1.362

international economic, political, and foreign exchange conditions

On the other hand, cross-border acquisitions also entail additional disadvantages such as it can be very complex, since firms are negotiating internationally. Negotiation between the companies may include differences regarding the legal and regulatory requirements in the target and acquirer firm's country and/or obtaining appropriate information to negotiate an agreement may present difficulties in the long run. The issue of differences with the corporate cultures can also exist, and different social cultures and practices as well. Statistics shows that only 20% of cross-border bids lead to a completed acquisition, compared to 40% for domestic acquisitions. Hitt, Ireland, Harrison, and Best, (1998) suggested that there is a pattern of actions that can improve the probability of acquisition success. Their study shows that when the target firm's assets are complementary to the acquirer's assets, an acquisition is more successful. Synergy will then be created when two firms' operations, with complementary assets, are integrated. In reality, once the two firms with complementary assets are merged, it frequently creates unique potentials and core competitiveness. As a result, the acquiring firm can preserve its focus on core businesses while leveraging the complementary assets and capabilities of the acquired firm.

M&A – Philippine Context

The most common type of mergers and acquisitions transaction in the Philippines is acquisition according to Baker and McKenzie, although it also recognizes merger and consolidation as well. Most of the time, acquisitions are done through full or partial acquisition of company shares or assets of the company being targeted. The Philippine market is considered as one of the emerging markets in Asia. From 2005, Goldman Sachs identified the Philippines as one of eleven countries "that could potentially have a BRIC-like impact in rivaling the G7." In September 2009, the FTSE Global Equity Index Series classified the Philippines as one of seventeen secondary emerging countries with regards to equities and stock markets. With this kind of characteristic, companies in the Philippines are among those firms being targeted by potential buyers abroad, which would like to broaden up their geographical scope to increase their brand level and profitability outside their respective local region. Thus, those foreign companies acquire certain companies in certain foreign countries such as the Philippines with this kind of perspective.

Moreover, in the Philippines, especially on industries like banks, acquisitions are driven by the Philippine Government through its mandatory capital requirement. According to Cacdac (2002), the wave of mergers that captivated the Philippine banking industry in the 1990's arose out of a "sink or swim" scenario in the face of a global trend towards liberalization of financial services. Furthermore, this government requirement drives banking companies to acquire their failing rivals to attain the minimum capital requirement and/or pushes the intensity of the competition between the companies. Two of the most notable local banking mergers in

the Philippines during the last decade are the acquisition of Far East Bank & Trust Co. by Bank of the Philippine Islands on October 21, 1999 with a deal value amounting to US\$1.2 billion and the acquisition of Equitable –PCI Banking Corporation by Banco De Oro Universal Bank on November 06, 2006 with a deal value amounting to US\$1.1 billion.

II. REVIEW OF RELATED LITERATURE

Otchere and Ip (2003) which investigate the intra-industry effects of cross-border acquisition of Australian firms and it suggested that the target firms' rivals realized significantly positive abnormal returns following both the acquisition proposal and termination announcements. According to Otchere and Ip (2003), the study examined the intra-industry effects of cross border acquisition proposal and termination announcements and find, that in such cases where the takeovers were later cancelled, the Australian target firms experienced only a partial reversal of the initial returns.

It was explained by Otchere and Ip (2003) that the reversal could be due to the expectation that other acquirers may eventually acquire these targets. The study confirmed that once the announcement of the cross-border acquisition came up, the rival firms of the target company display a notably positive stock price change. This is also the same case even if acquisition proposal has been cancelled. Moreover, the paper found out that between these two events; the acquisition proposal and the termination announcement, the rival firms' abnormal returns is higher with the termination announcement of the acquisition than the actual acquisition proposal announcement. This overall understanding is congruent with the article by Fama et al. (1969), which mainly argues that event studies produce useful evidence on how certain variables, such as stock prices, respond to information, like the acquisition proposal announcement. This is congruent with the efficient market hypothesis which asserts that financial markets, as a whole, are "informational efficient" which means that the stock prices of companies already incorporated and reflects all related information brought about by the efficiency of the market.

There were a very limited local articles that tackle its attention specifically on Philippine mergers and acquisitions (M&As), which make this study more interesting. However, there were a quite several international studies which understand the effects of acquisition proposals to the companies involved. One example is Akhigbe and Madura (2001) where it determined the valuation effects of merger announcements on insurance company acquirers, targets, and rivals and explained the variation in these valuation effects. The authors found that insurance company acquirers experience positive and significant valuation effects. Also, it suggested that targets of insurance company mergers experienced very favorable valuation effects. Lastly, the study's primary objective is to determine whether the merger between insurance companies signals information about the prospects of rival insurance companies. The authors find

positive and significant intra-industry effects in response to the announcements of insurance company mergers, which supports the signaling hypothesis. Intra-industry effects of such information or events like mergers and acquisitions were tackled by prior researchers. For example, Akhigbe and Madura (1999) found out that acquisition announcements generate significant positive intra-industry effects, on average using an analysis of bank acquisition announcement over the period 1983-1996. On the contrary, Otchere and Chan (2003), which studied the intra-industry effects of bank privatizations, specifically, analyzed the privatization of Commonwealth Bank of Australia (CBA). They examined the effects of the privatization of the CBA on the Bank's own market performance and that of its domestic rivals. They found out that the post-privatization results showed that all of the major rival banks of CBA reacted negatively to the initial and final privatization announcements. These are parallel with the results obtained by a study made on the effects of the privatizations of the British Airways on rival airlines conducted by Eckel et al. (1997). Both studies generated the conclusion that, privatization announcements in such industries will cause a negative reaction to the market rivals of the company being privatized. This claim is relatively in contrast with the Acquisition Probability Hypothesis used by Otchere and Ip (2003). This notion is also related with a study by Song and Walking (2000) which asserts that on the average, rival firms earn positive abnormal returns regardless of the form and outcome of the acquisition. Akhigbe and Martin (2000) also related to this study since it understands the effects of cross-border acquisition on rivals of targets in the United States from 1985 to 1996, which further described the effects using the information-signaling hypothesis and competitive hypothesis. The study concluded that, on average, the stock price reaction of the rivals of US targets of foreign acquisitions is positive and significant. Although Akhigbe and Martin (2000) examined the effects of completed foreign acquisitions on domestic rivals of US target, they were not able to test the effects of withdrawn acquisitions on the rival firms like Otchere and Ip (2003) did. The mergers and acquisition samples that were used in this study only includes announced and completed deals from 1997-2009 since the number of cancelled foreign acquisitions on domestic companies is very few.

Lastly, with regards to the methodology that was used, this paper employ the event study methodology in determining the impact of the event to the abnormal returns earned by the targets and its rival companies surrounding the M&A announcements and completion. The basic assumption in doing an event study methodology is that the market itself must be efficient. With this sense, the impact of the event, particularly the M&A announcement and completion events, will be reflected immediately in the stock prices of the company. This will then allow us to examine the economic effect of the event over a comparatively short period. There are several studies that used the event study methodology across different event types, time period and locations. In fact, for the years 1974 through 2000 the total number of papers that used event study

results is 565. In relation event studies about M&As, Simpson and Hosken (1998) examined the abnormal returns earned by the rival firms to determine whether four retailing mergers that occurred during the late 1980s reduced competition. They found out that rival firms experienced positive abnormal returns from May Company's 1986 acquisition of Associated Dry Goods and American Stores' 1988 acquisition of Lucky Stores. Moreover, Shaheen (2006) employ an event study methodology to empirically observe stock market reaction to acquisition announcements. The result shows that the target firms earned significant positive abnormal returns surrounding the acquisition announcement date.

III. FRAMEWORK

A. *Acquisition Probability Hypothesis*

The Acquisition Probability Hypothesis, as tested by Otchere and Ip (2003), which is the main theoretical framework of this study emphasize that the rival companies of the target in an initial acquisition deal earn abnormal returns because of the increased probability that they will be targets themselves. The main point emphasized in this theory is that, whenever there is an announcement of acquisition from a bidder, it would present positive benefits to the rival companies of the target firm in the deal.

B. *Efficient Market Hypothesis (EMH)*

The theoretical background of this paper also lies on the fundamental theory of the Efficient Market Hypothesis introduced by Fama (1970). According to this hypothesis, all relevant information that can affect company-level and industry-level returns, such as the changes in macroeconomic factors are already fully reflected in the current stock/index prices in the efficient market. Subsequent studies, however, suggest that macroeconomic factors can significantly influence stock movements (Fama and Schwert, 1977, Nelson, 1976). The result of this study can test the EMH and see if other factors can provide significant effect on the stock prices of the public companies in the Philippines.

IV. METHODOLOGY

Quantitative analysis was used to understand the effects of the merger and acquisition proposals to the target's rival companies during the period 1997-2009. Specifically, the author used a cross-sectional analysis in comparing the abnormal returns of the target to the rival firms' during the period surrounding the announcement/completion dates. To do this, the announcement/completion effects will be measured using the accumulative average abnormal returns earned by the companies involved across the stated event windows. Lastly, inferential statistics was conducted since the goal of the study

is to look at the samples of announced acquisition proposals which fit our criteria discussed below. A list of mergers and acquisition deals sorted chronologically, a list of rival firms, variables such as historical stock prices of the companies involved and the price of an index are the main components that were used in determining the abnormal returns earned by the targets and its rivals surrounding the acquisition/completion date. These calculated cumulative average abnormal returns earned by the companies involved were tested to know if the acquisition probability hypothesis is true or not.

A. Statistical and Mathematical Tools:

The main statistical and mathematical tool that will be used for this hypothesis is the Event Study Methodology. An event study methodology is a statistical method used to calculate and evaluate the effects of an event or an incidence to the market value of the companies. In particular, an event study methodology studies the stock price's changes beyond expectations, which is commonly termed as Abnormal returns. Events, in financial definition, are the incidents or information that has not already been priced into the market. This methodology seeks to determine if there is an abnormal price effect associated within an event. Thus, with this stand point, the researcher then infers the significance of the event.

For this study, where the event is merger and acquisitions, the event study methodology will use the list acquisition announcements between two business entities and analyze to check whether the firms' investors believe the merger announcement and/or the acquisition itself will generate additional market value to the company or will entail a decrease to its value. Event study methodology requires getting the abnormal return arising from an event being considered or studied. In financial definition, an abnormal return is the difference between the expected return of a security and the actual return. It is a term used to describe the returns generated by a given security or portfolio over a period of time that is different from the expected rate of return. It can be calculated using the formula:

Abnormal Return = Actual Return (single stock performance) – Normal Return (average market performance)

The actual return is basically the observed return of a particular firm at a specific date. The return to the investor that is realized when the position is closed. This return can be positive or negative and can occur over any period of time. It is calculated by (Price at day 1 minus Price at day 0) / Price at day 0.

On the other hand, the Normal Return is described as the expected return without conditioning on the event taking place. Usually the event period is removed in the estimation period in order to prevent the event from influencing the normal performance model parameter estimates.

In determining the normal return or the benchmark return of a company certain parameters are needed to be estimated. This estimation is typically performed over an estimation period, [T1; T2]. The estimation period is the

period to estimate the normal return model's parameter. This then precedes the event windows, [t1; t2], which is the period to assess the significance of the abnormal performance. This study used the [-20, +20], [-10, +10], [-5, +5], [-2, +2], and [-1, +1] day event windows. Lastly the event date is typically indicated by $t = 0$.

There are different models in obtaining the normal return or the benchmark return of a company such as Mean-adjusted returns model, Market adjusted returns, Capital Asset Pricing Model (CAPM), etc. This paper used the Market Model Adjusted Returns in this regard. The market adjusted return model is a statistical model which relates the return of any given security to the return of the market portfolio. MacKinlay (1997) stated that the market model represents a potential improvement over other normal or benchmark model like the constant mean return mode since it removes the portion of the return that is related to variation in the market's return, the variance of the abnormal return is then reduced.

The formula in obtaining the normal return or the benchmark return will then be:

$$NR_{it} = \hat{\alpha}_i + \hat{\beta}_i R_{mt}$$

The $\hat{\alpha}$ and $\hat{\beta}$ are OLS estimates R_{mt} of the regression coefficients. R_{it} is the index return calculated in the specific period. A broad index should be used as a reference for the average market performance. Some of the broad indexes are the S&P 500, and the ASX All Ordinaries Accumulation Index, which is on a country level index.

The calculation of each firm's abnormal returns per event period will then be the Stock return at day 1 of the evaluation period (realized return) minus alpha minus the index return at day 1 multiplied by the stock's beta Stock return adjusted for the overall trend in the market (normal return).

$$AR_{i,t} = R_{i,t} - \alpha_i - \beta_i(R_{m,t})$$

The list of event dates will be based on the dates sourced from the historical mergers and acquisition announcements from SDC Platinum. The index that will be used to be compared to the stocks is the PSE Composite Index. The PSE Composite Index (PSEi), is the Philippine Stock Exchange's main stock market index. The PSEi is also the PSE's only broad-base index. The expected returns will be estimated over the 200-day period (t-240 to t-41) preceding to the acquisition proposal date. Thus, the estimation period in days will be 200. Philippine Peso will be used for the price information data requirement. To determine the stock prices effects of the announcements, the daily abnormal returns for the targets and its respective rivals over the interval [-20, 20] will be estimated. The event windows that will be used in determining the cumulative abnormal returns are [-20, +20], [-10, +10], [-5, +5], [-2, +2], and [-1, +1].

The result will show the abnormal returns of the targets and their rivals during the event windows ([-20, 20], [-10, 10], [-5, 5], [-2, 2], and [-1, 1]). The cumulative abnormal returns of the target firms will be calculated by adding all abnormal returns up to time given. Then, it will test the significance of the abnormal returns after dividing the returns by their standard of error.

The following will be calculated to test the Acquisition Probability Hypothesis:

- Cumulative abnormal returns of target firms around acquisition announcement period.
- Cumulative average abnormal returns of target firms around acquisition completion period.
- Cumulative abnormal returns of rival firms around acquisition announcement period.
- Cumulative average abnormal returns of rival firms around completion period.

B. Analysis of the Abnormal Returns

After the researcher calculated the data in determining the abnormal returns for each of the companies per event period (date), a matrix of abnormal returns has been constructed of the following form:

$$\begin{pmatrix} AR_{1,t_1} & \dots & AR_{N,t_1} \\ | & \dots & | \\ AR_{1,t_2} & \dots & AR_{N,t_2} \\ | & \dots & | \\ AR_{1,t_3} & \dots & AR_{N,t_3} \\ | & \dots & | \\ AR_{1,t_4} & \dots & AR_{N,t_4} \\ | & \dots & | \\ AR_{1,t_5} & \dots & AR_{N,t_5} \end{pmatrix}$$

Each column of this matrix is a time series of abnormal returns for a given firm where the time index t is counted from the event date. Each row is a cross section of abnormal returns for time period t. The researcher then calculated the Cumulative Abnormal Returns (CAR) per company on a given event window and the Cumulative Average Abnormal Return (CAAR) per event windows of the targets and its rival companies. The formulae for these values are as follows:

Cumulative Abnormal Returns (CAR)

$$CAR_i = AR_{i,t_1} + \dots + AR_{i,t_2} = \sum_{t=t_1}^{t_2} AR_{it}$$

Cumulative Average Abnormal Return (CAAR)

$$CAAR = \frac{1}{N} \sum_{i=1}^N CAR_i$$

C. Testing the Cumulative Abnormal Returns' Level of Significance

The researcher then computed for the level of significance of the calculated abnormal returns over their standard

deviation. The formula in obtaining the standard deviation will be as follows:

$$s = \sqrt{\frac{1}{N-1} \sum_{i=1}^N (CAR_i - CAAR)^2}$$

And the corresponding t-test will be:

$$G = \sqrt{N} \frac{CAAR}{s}$$

The abnormal return observations will be aggregated in order to draw overall conclusion for the event of interest. The aggregation will be along two dimensions, which is through time and across the all the companies in the sample list.

V. DISCUSSION OF RESULTS

A final sample of twenty-one (21) target firms satisfied the selection criteria for the announced M&A and eleven of these were successful M&As. Fifty-three (53) rival companies were obtained as sample for the announced M&A transactions and thirty (30) of these rival companies were used for the completed announcements. Table 3 provides some information on the distribution and descriptive statistics of the sample.

TABLE 1-A: Industry distribution of targets and their rivals (Announcement)

Industry	No. of Targets	% of Targets	No. of Rivals	% of Rivals
Financials	3	14%	13	25%
Industrials	7	33%	13	25%
Consumer Services	3	14%	4	8%
Telecommunications	1	5%	3	6%
Oil & Gas	2	10%	10	19%
Basic Materials	4	19%	8	15%
Utilities	1	5%	2	4%
Total	21	100%	53	100%

TABLE 1-B: Industry distribution of targets and their rivals (Completed)

Industry	No. of Targets	% of Targets	No. of Rivals	% of Rivals
Financials	1	9%	4	13%
Industrials	6	55%	12	40%
Consumer Services	1	9%	3	10%
Oil & Gas	2	18%	10	33%
Utilities	1	9%	2	7%
Total	11	100%	30	100%

TABLE 1-C: Frequency distribution of sample firms

Year	Target firms		Rival Firms	
	Announced mergers	Completed mergers	Announced mergers	Completed mergers
1997	1	1	4	4
1998	5	2	15	6
1999	3	3	4	6
2000	1	1	2	2
2001	1	0	5	0
2002	0	0	0	0
2003	0	0	0	0
2004	1	1	2	2
2005	1	0	2	0
2006	0	0	0	0

2007	0	0	0	0
2008	4	3	12	10
2009	4	0	7	0
Total	21	11	53	30

A. Target firms' reaction to cross border merger proposal announcements

Table 2 Cumulative abnormal returns of target firms around acquisition announcement date

Event Window	% return	t-statistics	p-value	% positive
[-1, 1]	0.062	2.088	0.05	71%
[-2, 2]	0.101	2.697	0.05	67%
[-5, 5]	0.098	2.556	0.05	67%
[-10, 10]	0.120	2.622	0.05	67%
[-20, 20]	0.134	2.265	0.05	76%

Table 2 shows the abnormal returns received by the target firms during the acquisition proposal announcement period along with the different event windows, percentage of the total sample size with positive cumulative abnormal returns, t-statistic value and its corresponding significance level. The result shows that the target companies received significant positive abnormal returns surrounding the announcement proposal date. The level of significance of 5% is across [-20, 20], [-10, 10], [-5, 5], [-2, 2], and [-1, 1] event windows. The results for the target firm are the same to that reported by Otchere and Ip (2003) where the Australian target companies receives positive abnormal returns surrounding the announcement of the cross-border acquisition period.

The highest among the event windows in terms of significance level is reported on the mean 5-day cumulative abnormal return of .101 for the target firms. Across all the different event windows, over 67% of the target firms earned significantly positive abnormal returns. Fig. 9 depicts the cumulative average abnormal returns earned by the target firms surrounding the actual acquisition announcement date. Large abnormal returns are observed around the acquisition announcement date especially -2 days leading to the actual acquisition proposal date (t=0).

B. Rival firms' reaction to cross border merger proposal announcements

Table 3 Cumulative abnormal returns of rival firms around acquisition announcement date

Event Window	% return	t-statistics	p-value	% positive
[-1, 1]	0.01 4	1.64 4	0.05	58%
[-2, 2]	0.01 4	0.99 7	0.05	62%
[-5, 5]	0.00 3	0.16 4	0.05	60%
[-10, 10]	- 0.009	- 0.312	0.05	47%
[-20, 20]	- 0.018	- 0.483	0.05	47%

Table 3 shows the abnormal returns received by the rival companies during the acquisition proposal announcement period along with the different event windows, percentage of the total sample size with positive cumulative abnormal returns, t-statistic value and its corresponding significance level. Although the computed cumulative average abnormal returns tend to become positive as the event windows get smaller, it is, however, insignificant on the 5% level of significance for all event windows ([-20, 20], [-10, 10], [-5, 5], [-2, 2], and [-1, 1]). The extent of the abnormal returns received by the target companies' rivals surrounding the acquisition proposal announcement is not parallel to that reported by Otchere and Ip (2003), Song and Walking (2000) and Akhigbe and Madura (1999), which supports the information signaling and acquisition probability hypotheses, stating that rival companies of targets receive positive abnormal returns surrounding the acquisition announcement date. The results obtained. Moreover, the results also did not hold up the competitive advantage hypothesis that entails negative stock price reactions from rival companies.

C. Target firms' reaction to cross border merger completion announcement

On the other hand, the cumulative average abnormal returns accruing to the target firms and its corresponding rivals following the merger completion date are reported in table 4 and 5. The results offer no significance on the 5% significance level across all event windows for the target companies and their industry rivals.

Table 4: Cumulative abnormal returns of target firms around acquisition completion date

Event Window	% return	t-statistics	p-value	% positive
[-1, 1]	0.013	-0.304	0.05	55%
[-2, 2]	0.025	0.415	0.05	55%
[-5, 5]	0.045	0.551	0.05	33%
[-10, 10]	0.033	0.511	0.05	45%
[-20, 20]	0.023	0.150	0.05	64%

Table 5: Cumulative abnormal returns of rival firms around acquisition completion date

Event Window	% return	t-statistics	p-value	% positive
[-1, 1]	-0.001	-0.074	0.05	57%
[-2, 2]	-0.003	-0.192	0.05	63%
[-5, 5]	0.006	0.279	0.05	63%
[-10, 10]	-0.005	-0.167	0.05	43%
[-20, 20]	-0.053	-1.377	0.05	47%

VI. SUMMARIZATION AND CONCLUSIONS

This paper studies the target companies and its corresponding rival firms' reaction to cross border merger proposals during the actual acquisition announcement period and the acquisition completion period from the year 1997 through 2009. The researcher found out that for cross-border deals that involves a Philippine company being acquired by a foreign firm, on the average, the target companies receive significant positive abnormal returns surrounding the

acquisition proposal period. The researcher determined that there is an abnormal positive price effect associated with the actual announcement proposal to the target companies being acquired by the foreign company.

On the other hand, the corresponding rival companies of the sample target firms obtained do not earn any significant abnormal returns, whether positive or negative, surrounding the actual acquisition announcement period. The returns received by the rival companies surrounding the actual acquisition proposal period ([-20, 20], [-10, 10], [-5, 5], [-2, 2], and [-1, 1] event windows) are not significant on the 5% level of significance. For the deals where the acquisition become completed, both the target and their industry rivals earned insignificant abnormal returns surrounding the acquisition completed period across all event windows ([-20, 20], [-10, 10], [-5, 5], [-2, 2], and [-1, 1]). The results mean that the completion announcement event does not provide any significant stock price returns beyond expectations.

REFERENCES

- [1] Akhigbe, A., Madura, J., 1999. The industry effects regarding the probability of takeovers. *The Financial Review* 34, 1–18.
- [2] Akhigbe, A., Madura, J., 1999. Intra-industry signals embedded in bank acquisitions announcements. *Journal of Banking & Finance* 23, 1637-1654
- [3] Akhigbe, A., Martin, A., 2000. Information-signaling and competitive effects of foreign acquisitions in the US. *Journal of Banking and Finance* 24, 1307–1321.
- [4] Cacadac, Hans Leo J. December, 2004. Bank Mergers and the Right to Bargain Collectively. *Ateneo Law Journal*, Vol. 49 Issue No. 3
- [5] Dong, Ming, David Hirshleifer, Scott Richardson, and Siew Hong Teoh, 2006, Does investor misvaluation drive the takeover market?, *The Journal of Finance* 61, 725-762.
- [6] Eckel, C., Eckel, D., Singal, V. 1997. Privatization and efficiency: Industry effects of the sale of British Airways. *Journal Financial Economics* 43, 275-298.
- [7] Fama, E. F. 1970. Efficient Capital Markets: A review of theory and empirical work. *Journal of Finance* 25, 383-417.
- [8] Fama, E. F., 1998. Market efficiency, long-term returns, and behavioral finance. *Journal of Financial Economics* 50, 283–306.
- [9] Fama, E., Fisher, L., Jensen, M., Roll, R., 1969. The adjustment of stock prices to new information. *International Economic Review* 10 1-21.
- [10] Fama E. F., Schwert, W.G. 1977. Asset Returns and Inflation. *Journal of Financial Economics* 5, 115-146.
- [11] Harford, Jarrad, 2005, What drives merger waves?, *Journal of Financial Economics* 77, 529-560.
- [12] Hitt, MA, Ireland RD, Harrison JS, Best A. Attributes of successful and unsuccessful acquisitions of U.S. firms. *British Journal of Management* 1998 9:91-114.
- [13] Hitt MA, Pisano V. The cross-border merger and acquisition strategy. *Management Research* 2003 1:133-144.
- [14] MacKinlay, A. C. "Event Studies in Economics and Finance," *Journal of Economic Literature* Vol. XXXV, Issue 1 (March 1997).
- [15] Nelson, C. R. 1976. Inflation and rates of return on Common Stocks. *Journal of Finance* 31:2, 471-483.
- [16] Otchere, I., Chan, J., 2003. Intra-industry effects of bank privatization: a clinical analysis of the privatization of the Commonwealth Bank of Australia. *Journal of Banking and Finance* 27, 949– 975.
- [17] Otchere, I., Ip, E., 2006. Intra-industry effects of completed and cancelled cross border acquisitions in Australia: A test of the acquisition probability hypothesis. *Pacific-Basin Finance Journal* 14 (2006) 209–230
- [18] Rhodes-Kropf, Matthew, and S. Viswanathan, 2004, Market valuation and merger waves, *Journal of Finance* 59, 2685-2718.
- [19] Schmidt JA. Business perspective on mergers and acquisitions. In: Schmidt JA, editor. *Making Mergers Work*. Alexandria (VA): Society for Human Resource Management; 2002. p. 23-46.
- [20] Seth A, Song KP, Pettit RR. Value creation and destruction in cross-border acquisitions: an empirical analysis of foreign acquisitions of U.S. firms. *Strategic Management Journal* 2002 23:921-940.
- [21] Shaheen (2006), Stock Market Reaction to Acquisition Announcements using an Event Study Approach.
- [22] Shleifer, A., and R. W. Vishny, 2003, Stock market driven acquisitions, *Journal of Financial Economics* 70, 295-311.
- [23] Simpson and Hosken (1998) Are Retailing Mergers Anticompetitive? An Event Study Analysis.
- [24] Song, M., Walking, R., 2000. Abnormal returns to rivals of acquisition targets: a test of the acquisition probability hypothesis. *Journal of Financial Economics* 55, 143– 171

AURTHOR'S PROFILE



Frederick P. Romero, is an MBA graduate from University of Santo Tomas, Manila, Philippines. He is currently taking his Ph.D. in Business at the De La Salle University – Manila, Philippines. He is also an Management of Financial Institution graduate from De La Salle University – Manila, Philippines. He is currently working at MAP Capital Advisors as a Senior Financial Analyst. In addition, he is a part-time associate professor under the Financial Department of De La Salle University – Manila, and the Business, Entrepreneurship and Accounting Department of Miriam College.