THE EFFECT OF STOCK TURNOVER AND AUDITOR SELECTION ON PREMIUMS PAID IN ACQUISITION TRANSACTIONS: EVIDENCE FROM INDONESIA

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Abstract: This study focuses on the determinants of premiums paid in acquisition transactions of public companies. In this type of transaction, the acquisition price is usually priced at premium above the exchange price. Motivated by contradictory findings in previous literatures, two hypotheses are proposed to explain the phenomenon. First, there is a positive relationship between premiums paid and target's stock liquidity. And second, there is a positive relationship between premiums paid and information quality. These hypotheses are tested using historical data of such acquisition transactions that comprise at least 20% of target's equity and that have been occurred in the Indonesian stock exchange during 2000-2010. The findings suggest that stock turnover, as a proxy for stock liquidity, and auditor selection, as a proxy for information quality; do have significant impact on the premiums paid, which confirm previous studies. However, unlike a priori expectation, the relationship between stock liquidity and the premiums paid is negative. We argue that analysts coverage that can act like a minority shareholders protection help to explain this negative relation between stock liquidity and the premiums paid.
1. Introduction

Acquisitions of public company stock that involve controlling interest are usually priced at premiums from the exchange prices. Barclay and Holderness (1989) study 63 acquisitions of at least 5 percent of the common stock in US markets between 1978-1982 period and find that the average premium is 20 percent. In cross-country setting, Dyck and Zingales (2004) find that the average premium is 14 percent from a sample of 393 transactions at least 10 percent of the common stock in 39 countries during 1990-2000. The premiums are also observed for companies that issued multiple classes of stock with differential voting rights. The price difference between stock with and without voting rights is the implied premiums of controlling interest. Nenova (2003) studies 661 dual-class stocks in 18 countries during January-December 1997 and observes that the implied premiums of controlling interest ranging from close to zero in Finland to close to half of firm's market value in South Korea.

Previous studies (Barclay and Holderness 1989, Rydqvist 1996, Chung and Kim 1999, Reese and Weisbach 2002, Nenova 2003, Dyck and Zingales 2004, Doidge 2004, Nicodano and Sembenelli 2004, Wu and Wang 2005, Muller 2008, Doidge, Karolyi, Lins, Miller, and Stulz 2009, Albuquerque and Schroth 2010) seem to support a hypothesis that the premiums are motivated to pursue private benefits of control in the target firm. The literatures also provide evidence that several factors as such seller and buyer characteristics, principal-agent behavior, and institutional setting do have significant effect on the premiums paid. However, the fact that some studies (Barclay and Holderness 1989, Nenova 2003, Dyck and Zingales 2004) also find discounts in controlling interest transactions is intriguing. According to Barclay and Holderness (1989), a discount in acquisition price is to compensate the purchaser for the expected net present costs of becoming the controlling party. We argue that target's stock liquidity is one factor that could explain this variation as indicated in some studies (Gardiol, Gibson-Asner, Tuchschild 1997, Ødegaard 2007, Huang and Xu 2009). Moreover, Eckbo and Langohr (1989) and Bargeron, Schlingemann, Stulz and Zutter (2008) find that the premiums are significantly higher in public firm than in private firm tender offers, where information disclosure is not required. This is contradicting since other researches (Reese and Weisbach 2002, Nenova 2003, Dyck and Zingales 2004, Doidge 2004, Doidge et al. 2009) provide evidence that minority

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shareholders protection, which is typically reflected as the level of information disclosure, has significant effect in curbing the private benefits of control. Because minority shareholders protection is stronger in public firms than in private firms, thus, intuitively, the premiums should be greater in private firms than in public firms. We further argue that information quality could explain to this phenomenon.

The findings suggest that stock liquidity and information quality do have significant impact on the premiums paid. However, unlike a priori expectation, the relationship between stock liquidity and the premiums paid is negative. We argue that analysts' coverage could also act like a minority shareholders protection. Nenova (2003) argue that the lack of investor protection help to explain why the premiums paid are higher in developing countries compared to developed countries. Whereas for the information quality, this study confirm previous study by Bugeja (2009), in which he finds that target firms that are audited by Big 4 auditors have significantly higher takeover premiums compared to non-Big 4 auditors. The rest of the paper is organized as follows. Section 2 provides a literature review on the determinants of premiums paid. Section 3 describes data and methodology that are used in this study. Section 4 evaluate and discuss findings of empirical results. Finally, Section 5 presents the conclusion of this study.

2. Literature Review
Transactions of public company stocks that contain controlling interest as such in acquisition or takeover usually are priced at premiums above the exchange prices. Previous studies (Barclay and Holderness 1989, Rydqvist 1996, Gardiol et al. 1997, Chung and Kim 1999, Nenova 2003, Dyck and Zingales 2004, Doidge 2004, Wu and Wang 2005, Gaspar et al. 2005, Caprio and Croci 2008, Muller 2008, Albuquerque and Schroth 2010) seem to support the notion that the premiums are motivated to pursue private benefits of control in the target firm. According to Barclay and Holderness (1989), the premium represents an added value to the bidder of having a control over the company. It is fairly easy for a controlling shareholder to choose to exploit opportunities in the company for his own personal or group benefits, with no advantage for the remaining shareholders. Examples of such benefits are influence over who is elected in the CEO position, the ability to transfer assets below market prices to related parties, or consume perquisites at the expense of the firm.

The literatures provide evidence that several determinants do have significant effect on the premiums paid. These determinants can be classified into target (seller) and bidder (buyer) characteristics, principal-agent behavior,
and institutional setting. Barclay and Holderness (1989) find that target firm size, fractional ownership, and target firm performance have significant positive relationship with the premiums. They also notice that individual bidders are positively related with target's leverage and cash holding, but negatively related with target's stock return variance. Target's initial and existing shareholding structure is one of the factors that have been confirmed to have significant impact on the premiums paid (Rydqvist 1996, Gardiol et al. 1997, Caprio and Croci 2008). Caprio and Croci (2008) also discover that family-controlled firms have higher premiums especially when the family owns a large stake in the company's voting equity and the founder is the firm's CEO and/or Chairman. Gaspar et al. (2005) further reveal that investment horizon of target's shareholders does have effect on the premiums paid. They argue that the investment horizon of target's shareholders is positively related with the premiums paid.

In term of principal-agent behavior, Rydqvist (1996) suggests a positive correlation between the premiums and the ability to defend of the incumbent manager versus a rival for holding control over the company. Wu and Wang (2005) study the relationship between target managers' investment tendency and premiums paid. Their finding show that low (high) premiums, which also indicates small (big) private benefit of control, alleviates (aggravates) underinvestment tendency of managers. Moreover, Albuquerque and Schroth (2010) examine the behavior of target's dominant shareholders. They find that the controlling block holders' ability to fight a potential tender offer for target's stocks influence the premiums paid. On the other hand, Cung and Kim (1999) find that the premiums paid are also affected by the control value of a block of shares held by minority shareholders. One of pioneering work on institutional setting as the premiums paid determinant is Gardiol et al. (1997). They suggest that ownership transfer regime and negotiation mechanism have effect on the premiums paid.  

Though not all acquisition transactions are priced at premiums, in some cases they are priced at discounts. Barclay and Holderness (1989) argue that the discount is to compensate the purchaser for the expected net present costs of becoming the controlling party. However, a rational buyer might still
willing to buy a controlling interest at premium if he estimates that he could 
excerpt some benefits out of it, even if the firm is expected to incur losses in the 
future. For example is an acquisition of company that suffered huge loss to 
reduce acquirer's consolidated tax expenses. Thus, there might be some other 
factors that contribute to the determinants of the premiums paid.

Probably, one of the factors that can explain the discounts in 
acquisition transaction is target's stock liquidity as indicated in some studies 
and Ødegaard (2007) study the phenomenon in dual-class stocks that in some 
period of time the non-voting stock are traded at premiums to the voting stocks 
(the voting stocks are traded at discounts). They argue that the phenomenon is 
caused of the restriction on foreign ownership to the stocks by the authority. This 
argument is supported by the fact that when the regulatory restriction on foreign 
ownership to the stocks is removed, the voting stocks are traded at premiums. In 
the absent of regulatory restrictions, more foreign investors that actively search 
for controlling interest are present in the market inducing liquidity to the voting 
stocks. Another study by Huang and Xu (2009) shows that unlike other 
countries, transactions of block shares have huge discounts in China. They argue 
that trading restrictions help to explain this puzzle. Transactions of block shares 
in China face trading restrictions in the open market and they can only be traded 
in the form of block transfers at negotiated prices. Using a dataset of 233 block 
transfer in China during 2002-2003, they find that discounts on block share 
prices increase with the proportion of restricted shares in the ownership. Studies 
by Gardiol et al. (1997), Ødegaard (2007) and Huang and Xu (2009) provide 
evidence that target's stock liquidity can explain price discounting in a 
controlling interest transactions. However, they are studying target's stock 
liquidity that is caused by regulatory framework. Target's stock liquidity as the 
result of supply and demand force in the market may also affect the variation of 
the premiums paid. The relationship between target's stock liquidity and 
premiums paid is expected to have a positive relationship. Since higher stock 
liquidity would provide easiness to the stockholders to convert or alter their 
holding to other asset, hence buyers might price higher for stock with higher 
liquidity. In other word, the more liquid the target stock, the more premium is 
paid.

Hypothesis 1 : there is a positive relationship between premiums paid and 
target's stock liquidity.

Moreover, Eckbo and Langohr (1989) and Bargeron et al. (2008) find 
that the premiums are significantly higher in public firm than in private firm
takeover, where information disclosure is not required. This is contradicting since other researches (Nenova 2003, Dyck and Zingales 2004, Doidge 2004) provide evidence that minority shareholders protection, which is typically reflected as the level of information disclosure, has significant effect in curbing the private benefits of control. Because minority shareholders protection is stronger in public firms than in private firms, thus, intuitively, the premiums should be greater in private firms than in public firms. An explanation of this could be that the buyers of controlling interest is taking into account the probability, in which is reflected in the level of information quality, they could extract some values or benefits for becoming the controlling shareholders. This probability is reflected in the level of information quality, i.e. the level of information accuracy and disclosure. Low information quality could cause additional risk to the acquirer, since there is higher probability that the true value of the firm is widely deviate from the transaction value. For example, suppose there are two companies with all the same characteristics except that the one is a public company and the other is a private company. In a control contest, a buyer would evaluate the two companies and find out that the magnitude of private benefits of control in the two companies are the same. However, the information quality in the private company is relatively more uncertain compared to the public counterpart. This is because public companies have more regulating agencies that exerts some rules, in which private companies have not. One of these rules is regarding the level of information accuracy and disclosure that must be met to a certain standard, which is usually higher than the average or the population. Thus, a buyer in a control contest would give more value to the public company, because he is more confident by the information quality provided and in turn he would have higher certainty he could extract some values or benefits for becoming the controlling shareholders. The relationship between information quality and premiums paid is expected to have a positive relationship. The higher the information quality, the more premium is paid.

Hypothesis 2 : there is a positive relationship between premiums paid and information quality.

3. Data And Methodology
In general, the premiums is determined by the amount above the pre-announcement stock price an acquirer paid for a target firm, divided by the pre-announcement stock price (Walkling and Edmister 1985, Slusky and Caves 1991, Sung 1993). Walkling and Edmister (1985) use target's market price fourteen days prior to acquisition announcement date, while Slusky and Caves (1991) and Sung (1993) measure target's market price one month and sixty days,
respectively before the first takeover announcement. These are the most common method used in the US as targets' stock prices are readily available and sometimes they are treated as abnormal returns as a result of the announcement. The premiums paid or abnormal returns reflected the cash flow benefits that shareholders expected to receive under the new management (Barclay and Holderness 1989). The premiums paid (PREMIUM) in this study follows the measure used by Sung (1993) in which the premiums paid is the amount an acquirer paid for a target firm divided by the stock price in sixty days prior the acquisition announcement. This measure is used as the targets in the sample are public listed firms. This ratio gave an indication of how many times the bidder is willing to pay for the target firm above its market price.

Ødegaard (2007) uses both annual stock turnover and bid/ask spread as proxies to stock liquidity. He defined the annual stock turnover as the average fraction of stocks outstanding traded during the year. While the annual bid/ask spread is defined as the average difference between bid and ask prices for particular stock traded during the year. Similar to Ødegaard (2007), stock liquidity in this study is measured using the annual stock turnover (TURNOVER), which is determined by the natural logarithm of average daily stock volume traded for the twelve months period ending two months before the acquisition announcement. Disclosure standards regulate the information available to all stakeholders. According to Dyck and Zingales (2004), the more accurate this information is, the more difficult it is for a controlling stockholder to expropriate the other stockholders without incurring legal or reputational costs. Thus, information quality corresponds to how accurate the information is and it is reflected in the disclosure standards of particular company. Bugeja (2009) finds that auditor selection also determines the information quality of a firm, in term of financial statement credibility. His study shows that target firms that are audited by Big 4 auditors have significantly higher takeover premiums compared to non-Big 4 auditors. In this study, the proxy for information quality is the selection of target's auditor for annual financial statement before the date of the acquisition announcement. Target's auditor (AUDITOR) is dummy variable equal to 1 for Big 4 auditor and 0 otherwise.

In this study, six variables are used as control variables as they may have an impact on premiums paid as found in previous researches. These variables included: percentage of equity purchased, cash to total assets, short-term debt to total assets, average daily beta, average daily stock return, and intangibility dummy. Percentage of equity purchased (SIZE) is the number of shares in the transaction as a percentage of the total number of shares outstanding (Barclay and Holderness 1989). Cash to total assets (CASHTA) is
the cash and marketable securities over book value of total assets before the acquisition announcement (Barclay and Holderness 1989). Short-term debt to total assets (DEBTTA) is the short-term debt over book value of total assets before the acquisition announcement (Albuquerque and Schroth 2010). Average daily stock return (RETURN) is the average daily stock return for the twelve months period ending two months before the acquisition announcement (Albuquerque and Schroth 2010). Beta (BETA) is the average 3-month beta for the twelve months period ending two months before the acquisition announcement. Finally, industrial sector (INDUSTRY) is dummy variable equal to 1 for manufacturing and 0 otherwise.

Based on the dependent and explanatory variables described above, the multivariate regression model is expressed in the following equation:

Here $\alpha$ and $\beta_i$ ($\beta_1, \ldots, \beta_n$) is the parameters or coefficients, subscript $i$ denotes the observation number, and $\varepsilon$ is the residual. Table 1 shows the explanatory variables in the model and their predicted impact on the premiums paid.

**TABLE 1. Explanatory variables and their predicted impact on premiums paid**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Measurement</th>
<th>Predicted sign</th>
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<tbody>
<tr>
<td>SIZE</td>
<td>Portion of equity that is being transacted in the acquisition transaction.</td>
<td>+</td>
</tr>
<tr>
<td>TURNOVER</td>
<td>LN of 12 months average daily stock volume, ending 2 months before the announcement.</td>
<td>+</td>
</tr>
<tr>
<td>CASHTA</td>
<td>Ratio of cash and marketable securities to total assets prior acquisition announcement.</td>
<td>+</td>
</tr>
<tr>
<td>DEBTTA</td>
<td>Ratio of short-term debt to total assets before acquisition announcement.</td>
<td>-</td>
</tr>
<tr>
<td>BETA</td>
<td>12 months average 3-month beta, ending 2 months before the announcement.</td>
<td>-</td>
</tr>
<tr>
<td>RETURN</td>
<td>12 months average daily stock return ending 2 months before the announcement.</td>
<td>+</td>
</tr>
<tr>
<td>AUDITOR</td>
<td>A dummy variable that takes 1 for Big 4 auditor and 0 otherwise.</td>
<td>+/-</td>
</tr>
<tr>
<td>INDUSTRY</td>
<td>A dummy variable that takes 1 for manufacturing and 0 otherwise.</td>
<td>+/-</td>
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Purposive sampling is used for the sampling technique in this study. Under this technique, sample is taken out from the population that meets several predetermined criteria. The predetermined criteria are as follows: listed in the Indonesian Stock Exchange (IDX), included in non financial sector companies, acquisition announcement during 2000-2010 periods (to avoid structural break due to Asian financial crisis that effect during 1997-1999 period for Indonesia), financial and market data are available, announcement date can be clearly identified, acquiring at least 20 percent of target's total equity, acquisition motive is voluntarily, minority buyout is excluded, target and acquirer have not been involved in any merger and acquisition transaction in one year prior the announcement.

The initial acquisition announcement list is identified from the Osiris database published by Bureau van Dijk Electronic Publishing. Osiris database reports all important corporate announcements such as bonus issues, rights issues, M&A, corporate restructuring, etc. for all publicly listed companies around the globe. The actual transactions are then confirmed by checking through the Indonesian Capital Market Directory (ICMD). The ICMD contains documents related to companies' announcement such as Circular to Shareholders in relation to acquisition, capital changes, dividend payouts, etc. Financial data for the target firms are obtained from the ICMD while market data are obtained from the Datastream database published by Thomson Reuters.

The initial population comprises of 183 acquisition transactions of non financial sector targets listed on IDX from 2000-2010. Among these only 34 acquisition transactions that satisfy the predetermined criteria. Much of the reduction from 183 to 34 observations is due to minority buyout and transaction of less than 20 percent of equity. Minority buyout or situations where the controlling parties purchased the remaining shares of the firms from the minority shareholders are excluded. As for the publicly listed firms that are relatively larger, only those with more than 20 percent acquisition stakes are considered. This is because a 20 percent purchase stake is sufficient to effect a change in control of the public listed corporation (Loh 1996).

Table 2 shows the descriptive statistics of the dependent variable and the independent variables of this study. In average the premiums paid is 51.6% which is higher compared to similar transaction in developed market (Barclay and Holderness 1989, Dyck and Zingales 2004). However, Nenova (2003) finds that higher premiums paid is evidence in developing market compared to developed market. In average the transaction size involves 55.3% of target's equity. The average of twelve months average daily stock volume, ending two months before the announcement, is around 2.85 billion of shares traded (three
observations have no trading activities during the period). In term of auditor selection among 34 observations, 16 targets (47.1%) use Big 4 auditor. Moreover, Table 3 shows the correlation coefficients matrix between variables used in the model. Based on this correlation coefficients matrix, it suggests that multicollinearity problem is not evident in this study, as indicated by the low value of correlation coefficients among variables.

4. Findings and Discussion

Table 4 shows estimation results for the regression model. The Jarque-Bera statistic of this model has probability value of more than 0.1, which means that the residuals are normally distributed. Based on the LM test, where the test statistic is less than the critical value, hence the problem of heteroscedasticity is not present in this model. Moreover, there is very low collinearity between the independent variables with the VIF statistics lower than 10. Thus, the collinearity problem is not applicable here. From these diagnoses, we can conclude that the distribution of the data satisfied the assumptions of a multiple regression. The model estimated is adequate as F-statistic shows significant at the level of at least 1 percent. The adjusted R-squared for the overall model indicates that the model can explain 67.8% of the variation in the premiums paid.

Examining the effect of stock turnover, as a proxy for stock liquidity, to the premiums paid shows significant impact at 10% level. But surprisingly, the relationship between stock turnover and the premiums paid is negative. A
possible explanation of this finding goes as follows. A highly traded stock is usually covered by many analysts. These analysts' coverage can act like a minority shareholder's protection. This is because majority shareholder cannot freely extract private benefits of control since many analysts are monitoring him. Neto and Guerreiro (2003) argue that the lack of investor protection help to explain why the premiums paid are higher in developing countries compared to developed countries. Thus, acquirers who are likely to become majority shareholder to extract private benefits of control would try to avoid highly traded target. And for the effect of auditor selection, as a proxy for information quality, to the premiums paid shows significant impact at 10% level with positive relationship to the premiums paid, as expected. This finding confirm Bugeja (2009) finding that target firms that are audited by Big 4 auditors have significantly higher takeover premiums compared to non-Big 4 auditors.

The control variables, namely cash to total asset, short-term debt to total asset and industry sector have significant impact on the premiums paid. Cash holding shows significant impact at 1% level with positive relationship to the premiums paid, which confirm previous study by Barclay and Holderness (1989). And the leverage effect, as measured by short-term debt to total asset, also shows significant impact at 5% level with negative correlation to the premiums paid. This finding also confirms previous study by Albuquerque and Schroth (2010). In term of industry sector, manufacturing sector is proof to higher premiums paid than other sectors in Indonesia.

Furthermore, other control variables such as size of equity purchased, stock beta and stock return reveal insignificant value. One possible explanation of stock beta and stock return insignificance is due to the nature of the stock market itself. The price movement in Indonesian stock exchange is mainly intraday. This means that even though there is a trading volume for a certain day but the stock closing price may not be different with the stock opening price in that day. This will affect the stock return calculation where it depends on the daily stock closing price movement. Thus, it is observed many times in Indonesian stock market that a stock may have zero daily return although it is actively traded. This will also affect the stock beta calculation which depends on the stock and market returns. Eventually, in a regression analysis when the independent variable does not have trend with the dependent variable, hence it will result in insignificance value. As for the insignificance of size of equity purchased, a possible explanation is due the level of shareholders dispersion. Previous study (Barclay and Holderness 1989) in developing market shows that size of equity purchased has significant impact on the premiums paid. One of characteristics in developed market is that many of the stocks have dispersed
shareholders. On the contrary, this feature is less evidence in developing market, such as in Indonesia. In disperse shareholding, acquirer deal with many shareholders that may have many expectations too regarding the acquisition value. In turn, an acquirer who wishes to have higher stake in a company would have to satisfy many shareholders by increasing the premiums paid. The opposite is observed in developing countries, where many of the companies listed in the exchange are owned by few major shareholders. Thus, acquirer has less pressure in escalating the premiums paid since he only deal with fewer major shareholders.

TABLE 4. Estimation results for the model

<table>
<thead>
<tr>
<th></th>
<th>Coefficient</th>
<th>Std. error</th>
<th>t-ratio</th>
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<tbody>
<tr>
<td>C</td>
<td>0.5788</td>
<td>0.4951</td>
<td>1.1692</td>
</tr>
<tr>
<td>SIZE</td>
<td>-0.2876</td>
<td>0.3168</td>
<td>-0.8983</td>
</tr>
<tr>
<td>TURNOVER</td>
<td>-0.0404</td>
<td>0.0216</td>
<td>-1.8726 *</td>
</tr>
<tr>
<td>CASHTA</td>
<td>3.5479</td>
<td>1.1186</td>
<td>3.1718 ***</td>
</tr>
<tr>
<td>DEBTTA</td>
<td>-4.6656</td>
<td>2.0402</td>
<td>-2.2869 **</td>
</tr>
<tr>
<td>BETA</td>
<td>-0.1055</td>
<td>0.1440</td>
<td>0.4707</td>
</tr>
<tr>
<td>RETURN</td>
<td>-0.0898</td>
<td>0.0874</td>
<td>0.3142</td>
</tr>
<tr>
<td>AUDITOR</td>
<td>0.2949</td>
<td>0.1676</td>
<td>0.0907 *</td>
</tr>
<tr>
<td>INDUSTRY</td>
<td>0.4415</td>
<td>0.1594</td>
<td>0.0104 **</td>
</tr>
</tbody>
</table>

Note:
1. Dependent variable PREMIUM.
2. Estimation method: OLS.
3. ***Significant at 1% level, **significant at 5% level, *significant at 10% level.

TABLE 5. Confirmation of predicted impact on spread

<table>
<thead>
<tr>
<th>Predicted impact</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock liquidity</td>
<td>+</td>
</tr>
<tr>
<td>Auditor selection</td>
<td>+/-</td>
</tr>
<tr>
<td>Block size</td>
<td>+</td>
</tr>
<tr>
<td>Cash and equivalent to total asset</td>
<td>+</td>
</tr>
<tr>
<td>Short-term debt to total asset</td>
<td>–</td>
</tr>
<tr>
<td>Stock beta</td>
<td>–</td>
</tr>
<tr>
<td>Stock return</td>
<td>+</td>
</tr>
<tr>
<td>Industry</td>
<td>+/-</td>
</tr>
</tbody>
</table>
5. Conclusion
This study confirms that stock turnover and auditor selection do have significant impact on the premiums paid. However, the relationship between stock turnover and the premiums paid is negative. We argue that this finding is related to the analysts' coverage. A highly traded stock is usually covered by many analysts. These analysts' coverage can act like a minority shareholders protection. This is because majority shareholder cannot freely extract private benefits of control since many analysts are monitoring him. Nenova (2003) argue that the lack of investor protection help to explain why the premiums paid are higher in developing countries compared to developed countries. Thus, acquirers who are likely to become majority shareholder to extract private benefits of control would try to avoid highly traded target. The effect of auditor selection, as a proxy for information quality, to the premiums paid also confirm Bugeja (2009) finding that target firms that are audited by Big 4 auditors have significantly higher takeover premiums compared to non-Big 4 auditors.

Another appealing finding of this study is that the size of equity purchased does not have significant impact on the premiums paid. We argue that non-disperse shareholding can explain this finding. In disperse shareholding, acquirer deal with many shareholders that may have many expectations too regarding the acquisition value. In turn, an acquirer who wishes to have higher stake in a company would have to satisfy many shareholders by increasing the premiums paid. The opposite is observed in non-disperse shareholding, which is common in developing countries.

One of the limitations of this study is in term of the number of observations included in the sample. The sample size can be expanded for other developing markets, for example among the ASEAN markets, to strengthen or may be weaken the argument for stock turnover and size of equity purchased as mentioned before. Further study could also improve the measurement construct of stock liquidity and information quality or auditor selection.

References


