Shareholder Involvement and M&A Announcement Returns: Evidence from Thailand

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An Independent Study Submitted in Partial Fulfillment of the Requirements
for the Degree of Master of Science in Finance
Department of Banking and Finance
FACULTY OF COMMERCE AND ACCOUNTANCY
Chulalongkorn University
Academic Year 2019

การมีส่วนร่วมของผู้ถือหุ้นกับผลตอบแทนจากการตอบสนองของราคาหลักทรัพย์ต่อการประกาศควบรวมกิจการ: หลักฐานเชิงประจักษ์จากประเทศไทย

นายชานน ธนภูมิพงศ์

สารนิพนธ์นี้เป็นส่วนหนึ่งของการศึกษาตามหลักสูตรปริญญาวิทยาศาสตรมหาบัณฑิต
สาขาวิชาการเงิน ภาควิชาการธนาคารและการเงิน
คณะพาณิชยศาสตร์และการบัญชี จุฬาลงกรณ์มหาวิทยาลัย
ปีการศึกษา 2562

Independent Study Title	Shareholder Involvement and M&A Announcement Returns: Evidence from Thailand
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Field of Study	Finance
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Accepted by the FACULTY OF COMMERCE AND ACCOUNTANCY, Chulalongkorn University in Partial Fulfillment of the Requirement for the Master of Science

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ชานน ธนภูมิพงศ์ : การมีส่วนร่วมของผู้ถือหุ้นกับผลตอบแทนจากการตอบสนองของราคาหลักทรัพย์ต่อการประกาศควบรวมกิจการ: หลักฐานเชิงประจักษ์จากประเทศไทย. (Shareholder Involvement and M&A Announcement Returns: Evidence from Thailand) อ.ที่ปรึกษาหลัก : รศ. ดร.คณิสร์ แสงโชติ

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สาขาวิชา การเงิน ลายมือชื่อนิสิต .....

ปีการศึกษา 2562 ลายมือชื่อ อ.ที่ปรึกษาหลัก .....

6181876526 : MAJOR FINANCE

KEYWORD: shareholder voting, corporate disclosure, mergers and acquisitions, regression discontinuity design, corporate governance

Chanon Thanaphumphong : Shareholder Involvement and M&A Announcement Returns: Evidence from Thailand. Advisor: Assoc. Prof. Kanis Saengchote, Ph.D.

How corporate governance mechanism helps prevent underperformance of acquiring firms is controversial, especially with little evidence in Asia-Pacific literature. I examined how shareholder involvement by means of mandatory shareholder voting (class 1) and required information disclosure (class 2) under the SET's Acquisition and Disposition Rule affected the market reaction on mergers and acquisitions. I did not find significant differences in the CARs among transaction classes with different degree of shareholder involvement. The results were consistent both in univariate and multivariate analysis which deal- and firm-level factors are controlled. I investigated further and found that concentrated ownership in Thai firms did not impact the effectiveness of shareholder voting. Finally, I applied the regression discontinuity design technic as a robust test with the SET's Rule's 4 criteria ratios as a forcing variable. The hypothesized jump in the CARs between class 1 and class 2 transaction is still not statistically significant.

Field of Study: Finance Student's Signature .....

Academic Year: 2019 Advisor's Signature .....

ACKNOWLEDGEMENTS

First of all, I would like to express my appreciation to Associate Professor Dr. Kanis Saengchote, my project advisor, for his advice and constructive comments throughout the project. When I really wanted to give up, being afraid of you disappointed in me was one of the drives I finally finished this tough (at least in my opinion) academic research. I am thankful for having you as my advisor. I am also grateful to Dr. Sira Suchintabandid and Dr. Jananya Sthienchoak for being my project committees and every suggestion.

To my friends at MSF who answered my questions about all document stuff, thank you so much again and again. To mum and dad, thank you that you did not ask much even when (I knew that) you wanted to know and were worried about what was going on and whether I was going to finish my master. I know that you know how much I love you. Finally, may I thank you myself? I cannot imagine how and what for, but If I have a chance to read this acknowledgement again, please remind yourself that you always survive no matter what, no matter how. I hope you already are who you want to be.

Chanon Thanaphumphong

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INTRODUCTION

Background and Significance of the problems

Mergers and acquisitions (M&A) are among the most important corporate finance transactions which have a significant impact on the firm's performance, viability and, in some cases, survival. M&A deals allow firms to grow faster than firms relying on organic growth by penetrating new markets, expanding their scope with complementary products, buying patents or trade secrets, realizing cost synergies, etc. However, evidence has shown that, in M&A, acquirer shareholders' returns often underperform relative to those of the target firms, especially in public takeovers. This raised the question for both academics and practitioners, why do managements keep making acquisitions that investors seem to believe will decrease their long-run value?

Renneboog and Vansteenkiste (2019) tried to investigate the factors relating to M&A short-run and long-run returns by compiling the recent literatures about failure and success in M&A. Interestingly, they found only three deal characteristics that consistently explained both short- and long-run stock returns. One of them is shareholder involvement by means of shareholder voting or activism and institutional investors' monitoring and advisory skills which contribute to positive deal performance.

While negative abnormal returns for acquirer shareholder have two leading explanations which are agency conflicts (Jensen, 1986) and CEO overconfidence (Roll, 1986), Becht et al. (2016) argued that value-destroying deals can be prevented by shareholder voting as a fundamental mechanism of corporate governance.

According to UK Listing Rules, the transactions which have significant size or transactions identified as Class 1 in threshold testing must seek approval from shareholders. They found that this mandatory shareholder voting contributes to higher announcement returns.

In Thailand, there is a similar rule, namely Notification of the Board of Governors of the Stock Exchange of Thailand Re: Disclosure of Information and Other Acts of Listed Companies Concerning the Acquisition and Disposition of Assets, B.E. 2547. The Securities and Exchange Act B.E. 2535, amended version, effective on August 31, 2008 (Section 89/29), prescribed the Securities and Exchange Commission (SEC) to specify details and monitor the transactions on assets acquisition and disposition of the listed companies. The SEC has thus issued the Capital Market Supervisory Board Announcement Tor.Jor. 20/2551 Re: Rules on Entering into Material Transactions Deemed as Acquisition or Disposal of Assets about the regulation on significant transactions subjecting to be an acquisition or disposition of assets that the listed companies should be abide by as per SET's rule.

After financial crisis in 1997, Thailand regulator has taken many steps to improve corporate governance system, using both voluntary and mandatory approaches (Limpaphayom & Connelly, 2004; Kanchanapoomi, 2005). Persons (2006) suggested further areas for improvement including law and regulations to enhance the rights of minority shareholders. The Acquisition and Disposition Rule is one of the attempts for better shareholder protection when companies acquire or dispose significant amount of assets. In summary, via threshold testing, Class 1 transactions must seek approval from shareholders while, for Class 2, companies must

circulate detail information to its shareholders. As for Class 3, there is no shareholder involvement at all because companies are only required to notify the SET about the transaction.

According to Faff et al. (2019)'s survey of Asia-Pacific literature, while in the developed markets, M&A research explores the different dimensions of successful corporate acquisitions and the association of many factors with deal performance, the Asia-Pacific evidence is still limited to M&A synergy and wealth effects. Thus, this research intends to provide further insight of Thailand corporate control market by investigating how the SET's Acquisition and Disposition Rule that increase shareholder involvement in significant corporate acquisitions will affect shareholder returns on the M&A announcement.

Research Objectives

To investigate how different degrees of shareholder involvement on different transaction classes via threshold testing according to the Acquisition and Disposition Rule affect the stock returns on the M&A deal announcement.

Contribution

The contribution of this research is beneficial to the regulator to evaluate the effectiveness of the regulations intended to protect shareholders. Firms can also use this study to enhance its governance systems if it come out as better shareholder wealth. Management may voluntarily disclose or cast shareholders' voting in some corporate decisions where shareholder involvement could ensure the positive reactions. It is also beneficial to investors as this rule intends to protect minority

shareholders. Investors can influence the corporate decision where the value-destroying decisions or the wealth expropriation are likely.

LITERATURE REVIEW

In this paper we will empirically examine corporate governance mechanism including shareholder voting and corporate disclosure on M&A deals. First, the theory and evidence on bidders' return in M&A deals will be explored. Then, we will summarize the development of Thailand corporate governance, theory, and some evidence of corporate governance on firm performance and value. Finally, this section will end with the SET's Acquisition and Disposition Rule which divide deals into classes by different levels of significance in relative size between targets and acquirers. These classes will dictate the actions requiring the public bidders listed in SET to take including holding the meeting for shareholder voting or just circulating the deal information to shareholders.

Acquirer underperformance

Large number of studies show that, on average, acquirer shareholders earn no positive returns at the M&A announcement. The past literature hypothesizes many factors to test relationship with this puzzling phenomenon. Loughran and Vijh (1997) found that stock performance following the deals depends on the acquisition form and the payment mode. Moeller et al. (2005) studied acquiring firm returns in the 1998-2001 merger wave. They included many deal and firm characteristics in the model and also found that the dollar loss of the bidder's shareholders is so large because of negative synergy gains combined with too high valuations in bidding price.

Renneboog and Vansteenkiste (2019) gathered all factors available in the recent M&A literature and found that only three deal characteristics are consistently

capable of explaining stock returns and long-run operating performance after deal announcement. Firstly, serial acquisitions performance declines deal by deal. The second is related or focused acquisitions outperform diversifying acquisitions. Lastly, shareholder intervention namely shareholder voting and activism by institutional shareholders positively affects deal performance. The common rationale behind these relationships is the managerial motives on the deal initiation. For example, overconfident CEOs usually participate in serial acquisition and CEOs with abundant free cash flow usually participate in empire building activities.

There are two leading explanations about managerial motives that adversely affect the deal performance which are agency conflicts and hubris behavior of manager. Firstly, agency motives arise when the acquirer's management wants to increase the firm size to trigger their own pay rises or when they follow diversifying acquisitions to control the company's cashflow fluctuations and hence diversify their employment risk. When management does not act in the best interest of shareholders, they have incentives to hoard cash within the company. This, as known as free cash flow problem, allows CEOs to deliberately take excessive risks or participate in empire building (Jensen, 1986). Lehn and Zhao (2006) argue that to reduce agency conflict, penalties of being fired should be a vigorous inducement that make CEOs to avoid making value-destroying M&A. Feito-Ruiz and Renneboog (2017) report that equity-based compensation also incentivize CEOs to pay lower premiums for target firms and earn higher announcement returns. This is explained by how the compensation aligned CEOs' interests with company shareholders.

Another argument focuses on managerial hubris behavior. Overconfident CEOs characterized by engaging in serial acquisitions over short periods tend to pay too much premium for the target (Roll, 1986). Malmendier and Tate (2008) confirm that serial acquisitions by overconfident CEOs generate lower announcement returns. However, for Thai literature, Chalermchavalit (2006) provided empirical evidence on the wealth effect of acquirer's overconfidence. Her thesis concluded that both short- and long-run returns of acquirer shareholders are positive. The result was inconsistent with Roll's hypothesis. Moreover, Sa-ngaphol (2015) studied long-run performance of acquirers listed on the SET between 2007 and 2011 and found significant negative returns only when the target is also public firms.

Corporate governance and M&A

Corporate governance is the system that provide framework and it relates to balancing all stakeholders' interest. It deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Therefore, corporate governance is believed to reduce agency problem and protect shareholders' benefit. According to OECD, ensuring the proper level of disclosure and transparency within corporate sector is one of the cornerstones to creating sound corporate governance frameworks.

According to Claessens (2006), good corporate governance is associated with a lower cost of capital, higher returns on equity, greater efficiency, and favorable treatment of all stakeholders. The law and finance studies identified the important role of institutions for contractual and legal enforcement, including corporate governance. In Thailand, after financial crisis in 1997, Thailand regulator has taken many steps to

improve corporate governance system, using both voluntary and mandatory approaches (Limpaphayom & Connelly, 2004; Kanchanapoomi, 2005). Persons (2006) suggested further areas for improvement including law and regulations to enhance the rights of minority shareholders.

As for the relationship between corporate governance and M&A performance, Masulis et al. (2007) tested whether corporate governance mechanism affect the acquirer returns. The antitakeover provision protecting managers from being disciplined by corporate control market is proxied for the poor corporate governance. Thus, the protected CEOs tend to participate in empire-building activities which are expected to destroy value. Their result supported this hypothesis. They also found that other characteristics considered as good governance such as separating CEO position and board chairman resulted in higher abnormal announcement returns. The recent study of Awan et al. (2020) also support that firm-level better governance, namely presence of institutional shareholders on the board resulted in the better acquisition ability. The positive correlation between monitoring role of institutional investors and long-run acquisition performance in East Asian market is also documented by Lou et al. (2020).

In terms of academic realm, while in the developed markets, M&A was studied in various aspects including how regulation and corporate governance impact deal performance gains, the Asia-Pacific evidence is still largely limited to topics of synergy and wealth effects. Faff et al. (2019) suggest the literature in this region seems unduly silent on the impact of M&A regulation and the influence of governance mechanisms on deal performance. Thus, this research aims to provide

further evidence on effectiveness of Thailand regulation aimed for better corporate governance of public companies when taking significant M&A decisions.

According to the SET's Acquisition and Disposition Rule (summary in the later section), when firms take acquiring decisions, it must test whether the deal is of significant size or not. The most significant, defined as Class 1, must be proceed to shareholder approval while, for Class 2, the company must circulate the deal information to its shareholders. This rule is the central for this study as it represents the different level of corporate governance actions. The following is the past literature about influence of shareholding voting and corporate disclosure on deal performance for the bidder. I will also discuss about the ownership concentration characteristics of Thai firms which is a potential deterrent of corporate governance effectiveness.

Shareholder voting and M&A

Iliev et al. (2015) examine whether the shareholder voting is an effective shareholder involvement method for firms around the world (including Thailand). They identified 3 components of effective voting process.

1) Laws and regulations – Shareholder meeting and binding voting outcomes are mandatory for significant corporate decisions including M&A.
2) Governance exercising – Likelihood of wealth expropriation encourage outside shareholders to use the voting process to influence corporate decision.
3) Governance-related outcomes – Low level of shareholder support for a proposed M&A results in tendency of deal withdrawal.

Becht et al. (2016) investigated whether shareholder voting prevents bad acquisitions resulting in higher abnormal returns than those not required for

shareholder voting. In UK setting where shareholder approvals on deals are required for large enough transactions, shareholder voting is exogenous via threshold test unlike in the US. Thus, the authors can answer their question that shareholders gain more on the announcement with mandatory voting which casts a deterrence effect on management decision. They applied Multidimensional Regression Discontinuity Design (MRDD) to indicate the causal effect on acquirer returns because the mandatory voting limits the price manager can offer in the transactions subject to approval.

For the US, Li et al. (2018) address endogeneity problems inherent in US listing rules by focusing on all-stock deals, as the rules require shareholder voting for deals in which the acquirer issues more than 20% of new shares. They show that acquirers with low institutional ownership is more likely to bypass shareholder voting. Using an RDD based on the cutoff point at the 20% threshold, they found a positive impact on acquirer announcement returns especially for acquirers with higher institutional ownership and concluded that agency conflicts in corporate acquisitions can be alleviated by shareholder voting.

Bethel et al. (2009) explored the market for voting rights and shareholder voting around M&A by examining institutional-investor trading and voting outcomes. They found that institutional buying shares and hence voting rights before record dates is positively related to voting turnout and negatively related to shareholder support of merger proposals. Gantchev et al. (2020) supported this view with the evidence that hedge fund activists help decrease value-destroying acquisitions through

the removal of empire building CEOs, compensation-based incentives, and appointment of new board members.

Corporate Disclosure and M&A

Kimbrough and Louis (2011) examine the determinants and consequences of acquirers' decisions to supplement deal announcement press releases with conference calls. Analysis of this additional voluntary information disclosure indicates that the more positive reaction is explained by the nature of information that is greater in volume and place greater emphasis on forward-looking perspectives. Because managers have private information about the rationales for proposed deals and their intended benefits, their disclosure decisions could have a substantial impact on investors' reactions to deal announcements.

Fraunhoffer et al. (2018) also provided the evidence in the five most acquisitive country markets in Europe. They show that the acquirers are more likely to conduct conference calls with increasing deal value, for transactions with public targets and non-diversifying transactions. Moreover, the decision for voluntary disclosure is positively influenced by increased acquirers' firm size and the comparably weaker governance systems for German and Swiss firms. After controlling for self-selection bias and other determinants of stock returns around M&A announcement, evidence is in strong support that firms with deal-related conference calls yield a higher abnormal return than firms merely publishing a press release.

Ownership Structure and Concentration

Claessens et al. (2000) examine the separation of ownership and control corporations in East Asian countries including Thailand. While ownership in US and other developed economies tend to be more diffused, ownership in many developing economies is substantially more concentrated. They found that more than two-thirds of companies are controlled by a single shareholder. Managers of closely held firms tend to be relatives of the controlling shareholder's family. Dhnadirek and Tang (2003) argued that there should also be a mechanism for limiting ownership concentration in Thai listed firms as it is considered as a primary factor that make corporate governance mechanism ineffective.

Large shareholders are assumed to possess private information, leading to information asymmetry and thus a higher adverse selection cost. Prommin et al. (2016) found that higher ownership concentration is associated with less stock liquidity. However, the relationship is not influenced by corporate governance mechanism. Jumreornvong et al. (2019) provided further insight of ownership concentration in Thailand by examining its role on corporate risk-taking level. They found that firms with more concentrated ownership take significantly less risk because large shareholders are more vulnerable to the firm's idiosyncratic risk.

Summary of SET's Acquisition and Disposition Rule

When the listed company or its subsidiaries have acquired or disposed an asset of significant value or size, the listed company will have to disclose information about the transaction to the investors. If such transaction has large value or material relative size which could affect the company's financial positions and operational

performance, the shareholders will then have to take part in the decision process to enter into the transaction.

There are 4 bases to calculate the relative size of transaction to evaluate its potential effects on the company's financial aspects. Then use the highest number to proceed.

Table 1: Criteria in Transaction Size Calculation

Criteria	Transaction Size (X) Calculation
Net tangible assets	$\frac{(NTA\ of\ the\ investment \times Proportion\ of\ assets\ acquired\ or\ disposed) \times 100}{NTA\ of\ the\ listed\ company}$
Net operating profits	$\frac{(Net\ Operating\ Profit\ of\ the\ investment \times Buying\ or\ selling\ ratio) \times 100}{Net\ Operating\ Profit\ of\ the\ listed\ company}$
Total considera-tion	$\frac{Value\ of\ Transaction\ paid\ or\ received \times 100}{Total\ Assets\ of\ the\ listed\ company}$
Value of shares issued	$\frac{Equity\ Shares\ issued\ for\ the\ payment \times 100}{Paid-up\ shares\ of\ the\ listed\ company}$

Note that, in order to prevent intentionally separating transactions to avoid passing the threshold, the calculation must include transactions made during 6 months prior to the day the company agreed to enter into transaction, except for the acquisition or disposition already approved from the shareholders' meeting. Thus, there will be a situation when the final figure for the transaction in threshold testing is much more than the 4 relative sizes calculated by itself.

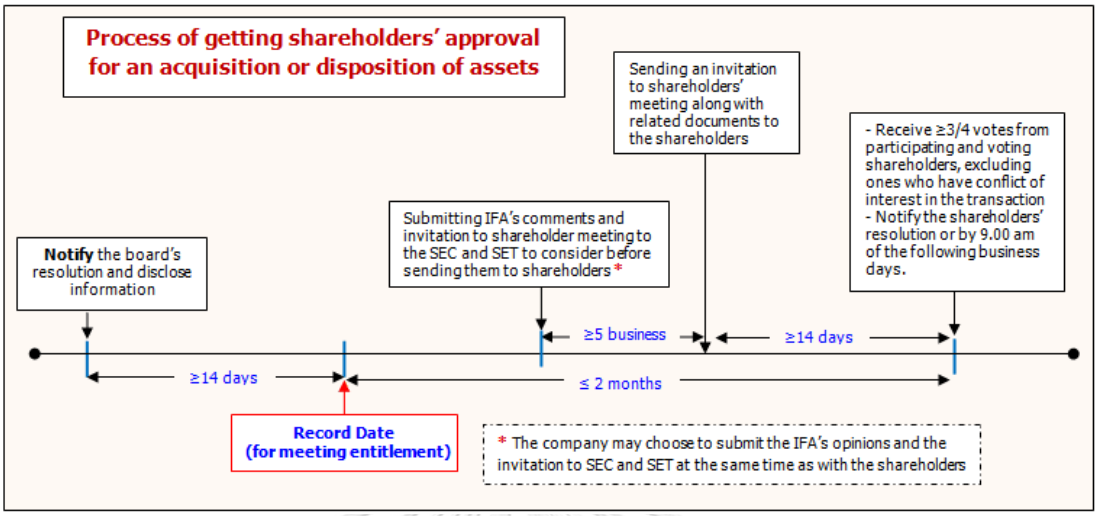
After calculating from all different bases, companies choose the highest value to determine its required procedure. Summary of the process according to the calculated transaction size is as below:

Table 2: Required Procedure by Transaction Class

Transaction Size (X)	Procedure				Transaction Class
	Notify SET	Sending a circular notice to shareholders	Seek approval from shareholders and have IFA opinion	File for new securities listing	
X < 15%					N/A
X < 15% and issue shares for payment	✔				Class 3
15% ≤ X < 50%	✔	✔			Class 2
50% ≤ X < 100%	✔		✔		Class 1
X>100% (Backdoor Listing)	✔		✔	✔	Class 4

For Class 1, management must seek approval at the shareholders' meeting, from 3/4 participating and voting shareholders and excluding the shareholders who have conflict of interest in the transaction. In doing so, the company must appoint Independent Financial Advisor (IFA) to express opinions on the purchase or sale transaction of assets. The IFA should be expressing views on, for example, the rationality of transaction and benefits to the company, fair prices, and conditions. The process of getting shareholders' approval is as below figure.

Figure 1: Process of getting shareholder's approval for an acquisition or disposition of assets (excerpt from SET website)



For Class 2, companies are required to send the circular notice to shareholders within 21 days from the day that the company has notified SET with required minimum information including asset appraisal expert opinion (if available) and projected financials (if available) with economic and industry assumptions certified by CPA and IFA that it is due care.

For Class 3, companies are only required to notify SET with a set of basic information about the transaction. As for Class 4, the transaction is considered as backdoor listing because of changing in control and is required to file for new securities listing. Thus, Class 4 is out of scope of this research and will be excluded from the sample. However, If the transactions are categorized with all requirements stated in Clause 24 of the Notification of Acquisition or Disposition of Assets, it is exempted from submitting the application for consideration of new securities and will be treated as Class 1.

Hypothesis Development

Since mergers and acquisitions are motivated by agency benefit extraction and/or overconfidence, it is expected to destroy shareholder value, at least, in the market perception evidenced by many studies. Literature also showed that better corporate governance mechanism is related to the better deal performance and should improve the market reactions. In Thailand, corporate governance evolved after the 1997 financial crisis, especially in aspects of minority shareholder protection. The SET's Acquisition and Disposition Rule is an attempt to improve governance mechanism in listed firms by involving shareholders in material mergers and acquisitions.

The Rule requires different degree of shareholder involvement based on the relative transaction size which are shareholder voting and information disclosure. The literature argues that, the way shareholder voting improved deal returns is the deterrent effect on price premium offered by managers. I expect that shareholder voting as the strictest required action by Class 1 transactions will contribute to more positive market reaction on the deal announcement than Class 2 that only requires deal information disclosure. In the same way, as Class 3 requires no action relating to shareholders, I expect that information disclosure by Class 2 will result in more positive market reaction than Class 3. Thus, I derived

Research Question 1: Do different degrees of shareholder involvement in company's mergers and acquisitions contribute to different shareholder returns on the deal announcement?

Hypothesis 1a: Average CARs around deal announcement of Class 1 and Class 2 transactions are not significantly different.

Hypothesis 1b: Average CARs around deal announcement of Class 2 and Class 3 transactions are not significantly different.

As listed firms in Thailand characterized as developing economies have the ownership structure that is highly concentrated, corporate governance mechanism may not be as effective as evidenced by the UK and US literature. Thus, in case of Class 1, I argued that ownership concentration measured by percentage of outstanding shares owned by top 5 shareholders should have negative effect on the deal returns because even the regulation requires to put a deal on vote, firms with high ownership concentration can pass the vote more easily. Thus, I derived

Research Question 2: In case of Class 1, do ownership concentration of the acquirers affect shareholder returns on the deal announcement?

Hypothesis 2a: The degree of ownership concentration does not statistically affect CARs around deal announcement.

DATA AND DESCRIPTIVE STATISTICS

This research defines mergers and acquisitions as transactions that result in changing in control in the target with percentage owned by the acquirer before the transaction less than or equal to 50% and percentage owned after the transaction more than 50%. The author obtains deal information of all M&A deals made by bidders that are listed on the Stock Exchange of Thailand between 2009 and 2019 from SDC's Mergers and Acquisitions database (328 transactions). This will exclude financial companies (48 cases). The data will then be merged with accounting information and stock returns of the acquirers from Datastream.

These following cases will also be excluded. Firstly, the transaction value is not reported by SDC and is not specified on the company's deal notification documents (72 cases). Secondly, the deals were put on shareholder vote for other reasons than its transaction class status such as related party transaction and voluntary vote (16 cases). Third, the deals were considered as Class 4 and not exempted from backdoor listing (6 cases). The rest excluded cases are the deals with confounding information within the event window and the deals with unavailable stock returns on Datastream or no information on SETSMART (58 cases). The final sample contains 128 deals.

Moreover, for each of these transactions, the researcher will manually collect additional information from SETSMART by reading documents that listed companies are obliged to publicly disclose. In particular, the information will be recorded whether the transaction is subject to shareholder vote or information circulation. If it is shareholder vote, the researcher will note (1) the reason for the vote, (2) the date of

the Extraordinary General Meeting; (3) the outcome of the vote and (4) Sum of percentage owned by top 5 shareholders on the record date before the meeting. Below is the summary of descriptive statistics of the sample data.

Table 3: Descriptive Statistics 1

Transaction Class Status	N	Percentage
All transactions in sample data *		
Class 1	23	18%
Class 2	28	22%
Class 3	77	60%
Note: * There are 2 transactions that missing accounting data of acquirers: one is class 1, and another is class 3.	128	

According to Table 3, most of the transactions are considered as Class 3. Even the SET's Rule do not assign class status to transactions that have relative sizes less than 15 percentage and do not issue new shares, it is still subject to the Public Company Law that also requires listed companies to notify SET about transactions resulting in acquiring or consolidating new subsidiaries. The facts remain that it does not involve shareholders about these transactions. Thus, these will be included as Class 3 in the sample. Moreover, because of the additional rule demanding companies to include transactions made during prior 6 months in the size calculation, there were 10 out of 28 Class 2 deals that would be considered as Class 3 if we use solely the calculated size of its own in threshold testing. The same situation occurred with Class 1 with 4 out of 23 deals that could have been Class 2 if this additional rule did not apply. Thus, this should alleviate, to some degree, the concern about high correlation between relative size and class status which is discussed in the later section.

Table 4: Descriptive Statistics 2

For Class 1 Transactions						
IFA Opinion	Appropriate		Inappropriate			
Voting Outcome	Approved	Disapproved	Approved	Disapproved	Mgt withdraw	Total
Deal Status						
Complete	17	0	2	0	0	**19**
	89%	0%	11%	0%	0%	**100%**
	74%	0%	9%	0%	0%	**83%**
Withdrawn	1	0	0	1	2	**4**
	25%	0%	0%	25%	50%	**100%**
	4%	0%	0%	4%	9%	**17%**
Total	**18**	**0**	**2**	**1**	**2**	**23**
	78%	**0%**	**9%**	**4%**	**9%**	**100%**

According to Table 4, 19 transactions or 83% of Class 1 deals are completed. Interestingly, there are 2 transactions that were approved by the shareholders even when the Independent Financial Advisor (IFA)'s opinion about the appropriateness of the transactions is negative. Moreover, 8 transactions are approved by 100% of participating shareholders and average approval rate is 99.55% while only 75% is required to pass the agenda. The reasons for deal withdrawal are economic conditions such as political situation have changed since the deal initiation or the precedent conditions are unmet in the due diligence process.

Table 5: Descriptive Statistics 3

Deal Characteristics											
Class Status	Avg. Relative Size (%)	All cash	Partly stock	Private target	Public target	Cross border	Non cross border	Merger	Acquisi-tion	Diversi-fy	Non-diversify
Class 1	54.90	15	8	20	3	4	19	13	10	12	11
		65%	35%	87%	13%	17%	83%	57%	43%	52%	48%
Class 2	18.25	26	2	27	1	7	21	19	9	22	6
		93%	7%	96%	4%	25%	75%	68%	32%	79%	21%
Class 3	2.98	76	1	75	2	8	69	18	59	49	28
		99%	1%	97%	3%	10%	90%	23%	77%	64%	36%

Table 6: Descriptive Statistics 4

Firm Characteristics					
Class Status	Avg. Total Assets (M. Baht)	Avg. Tobin Q (MV/BV)	Avg. FCF to Total Assets (%)	Avg. Leverage Ratio (%)	Avg. Top 5 shareholding (%)
Class 1	14,638	2.61	-5.82	15.53	62.73
Class 2	12,782	2.29	-9.75	16.40	
Class 3	42,340	1.81	0.22	21.24	

According to Table 5, Class 1 has the highest relative size in terms of transaction value to the acquirer market capitalization. It is also most likely to issue stocks as a consideration other than cash. Moreover, Class 2 with the medium relative size has the highest proportions of cross border and diversifying deals. As for firm characteristics in Table 6, Class 3 acquirers have the highest average firm size measured by book value of total assets and the lowest Tobin's q. It may seem that the firm size is related directly to the class status. However, in many cases, the maximum calculated transaction size which being used in threshold testing is based on Net

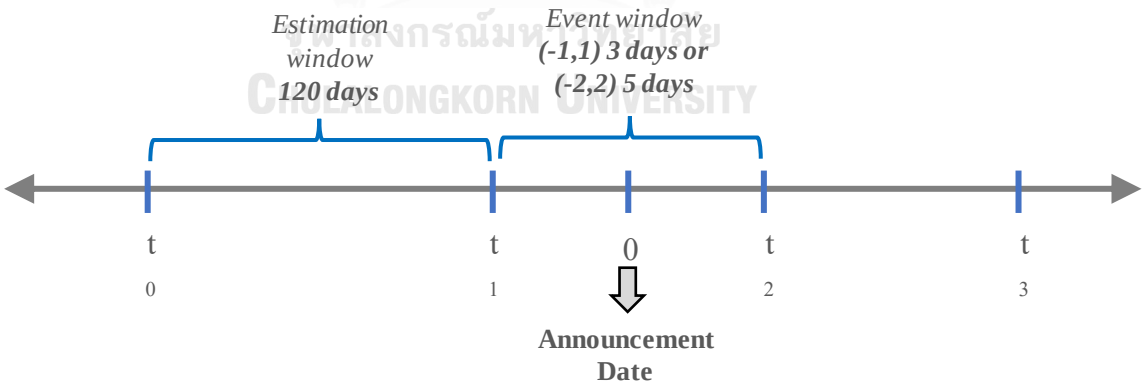
Tangible Asset criteria or Operating Profit criteria rather than Total Consideration criteria which use Acquirers' Total Assets as calculation base.

METHODOLOGY AND ECONOMETRIC MODEL

1. Measurement of Abnormal Return

The event study is adopted to measure the significance of corporate event by examining the change in stock price during the period in which the corporate announcement occurs. The direction and magnitude of the abnormal returns around the event will imply the impact of that corporate event on the shareholder value. In doing so, firstly, we need to identify the corporate announcement where the news of interest came into public. Then, we identify the event window surrounding that announcement by 3 days (one day before and after the announcement date) and 5 days (two days before and after the announcement date). Consistent with the literature (Becht et al., 2016), such short window is to limit possibility of other confounding information that might also affect the shareholder returns.

Figure 2: Event Study Methodology



The measurement of interest is abnormal or excess return of deal announcement. Hence, firstly, we need to identify what is the normal or expected returns of the stock in case that there is no deal announcement. In this research, I

applied the market model developed by Sharpe implemented in Sa-ngaphol (2015) with the 120-day estimation windows.

$$E[R_{it}] = \widehat{\alpha_i} - \widehat{\beta_i} R_{mt}$$

Where $E[R_{it}]$ = Expected returns of stock i at time t

$\widehat{\alpha_i}$ = Part of returns unexplained by market returns

$\widehat{\beta_i}$ = Regression coefficient on market returns

R_{mt} = Market returns calculated by SET index at time t

To find abnormal returns, the actual returns of stock is subtracted by the expected returns estimated by the market returns on each day in event window as following.

$$AR_{it} = R_{it} - E[R_{it}]$$

Where AR_{it} = Abnormal return of stock i at time t

R_{it} = Actual returns of stock i at time t

$E[R_{it}]$ = Expected returns of stock i at time t

Then I accumulate the abnormal returns in the event window from t = -1 to t = +1 or t = -2 to t = +2 to get cumulative abnormal returns (CAR) on each deal announcement. CAR will be used as the dependent variable in the econometric model, subsequently.

$$CAR_i(t_1, t_2) = \sum_{t_1}^{t_2} AR_{it}$$

2. Univariate comparison of announcement returns

According to Hypothesis 1a and 1b, the mean-comparison t-test is applied to test the difference in average CAR among transaction groups classified by the class status assigned in accordance with the SET Rule. In this study, I mainly focused on CAR(-1,+1), but I also test difference in CAR(-2,+2) for robustness in univariate analysis. However, we should be aware that the difference in returns observed in univariate comparison may reflect the correlation of acquirer returns with other determinants.

3. Multivariate comparison of announcement returns

In this section, I applied multivariate regression models by including potential influences of observable covariate as control variables (Becht et al., 2016; Renneboog & Vansteenkiste, 2019). For the comparison of CAR between transaction classes, two dummy variables are introduced into the regression model as we have three groups of transaction classes. The model for Hypothesis 1a and 1b is as below.

$$CAR_i = \beta_0 + \beta_1 Class1_i + \beta_2 Class3_i + \beta_3 RelativeSize_i + \beta_4 AllCash_i + \beta_5 Private_i + \beta_6 CrossBorder_i + \beta_7 Merger_i + \beta_8 Diversifying_i + \beta_9 IndustryActivity_i + \beta_{10} FirmSize_i + \beta_{11} TobinQ_i + \beta_{12} FreeCashFlow_i + \beta_{13} LeverageRatio_i + \sum_k \delta_k YearDummies + \sum_m \gamma_m IndustryDummies + \varepsilon_i \quad \textbf{(1)}$$

Table 7: Variable Definition

Variable	Definition
CAR (-1,+1)	Cumulative abnormal returns in the three days around the announcement of acquisitions
CAR (-2,+2)	Cumulative abnormal returns in the five days around the announcement of acquisitions
Class1	Dummy variable: 1 for Class 1 acquisitions, 0 otherwise.
Class3	Dummy variable: 1 for Class 3 acquisitions, 0 otherwise.
Deal Characteristics	
RelativeSize	Transaction value divided by market capitalization of the acquirer
AllCash	Dummy variable: 1 for purely cash-financed deals, 0 otherwise
Private	Dummy variable: 1 for private targets, 0 otherwise
CrossBorder	Dummy variable: 1 for non-Thai targets, 0 otherwise
Merger	Dummy variable: 1 for mergers, 0 for acquisitions
Diversifying	Dummy variable: 1 if bidder and target do not have the same Fama-French industry, 0 otherwise
IndustryActivity	Number of target firms with the same first three-digit SIC code acquired each year
Firm Characteristics	
FirmSize	Log of book value of total assets.
TobinQ	Ratio of the acquirer's market value of assets over its book value of assets
FreeCashFlow	Operating income before depreciation minus interest expense minus income taxes minus capital expenditures, divided by book value of total assets
LeverageRatio	Book value of total debt divided by the market value of total assets.
Top5Shareholding	Percentage of shares outstanding owned by top 5 shareholders as of the record date before the shareholder meeting to approve the transaction.

The coefficients of interest are β_1 and β_2. Since β_1 indicates the difference in CAR of Class 1 over class 2, I expect that the coefficient should be significantly positive to reflect better market reactions to the deals that are subject to shareholder

approval. In addition, the same logic is applied to β_2 as it indicates the difference in CAR of Class 3 over Class 2. The expected sign of β_2 is negative as we hypothesize that additional deal information disclosure should be better perceived by the market.

In addition, the negative effect of companies' ownership concentration on CAR is stated in Hypothesis 2a because this characteristic could reduce the effectiveness of corporate governance mechanism. I introduce another variable to measure ownership concentration (Jumreornvong et al., 2019) and then test for the Class 1 sample if higher level of concentration contributes to the lower CAR. I expect the sign of α_1 will be negative in the model below.

$$CAR_i = \alpha_0 + \alpha_1 Top5Shareholding_i + \alpha_2 RelativeSize_i + \alpha_3 AllCash_i + \alpha_4 Private_i + \alpha_5 CrossBorder_i + \alpha_6 Merger_i + \alpha_7 Diversifying_i + \alpha_8 IndustryActivity_i + \alpha_9 FirmSize_i + \alpha_{10} TobinQ_i + \alpha_{11} FreeCashFlow_i + \alpha_{12} LeverageRatio_i + \sum_k \delta_k YearDummies + \sum_m \gamma_m IndustryDummies + \varepsilon_i \quad \textbf{(2)}$$

4. Multidimentional Regression Discontinuity Design (MRDD)

From equation (1), it is possible that the coefficients of Class dummies are driven by omitted variables or reverse causality. Even already controlled for relative size, Class 1 is larger than Class 2, by definition. Class status and relative size might correlate with some unobservable factors namely CEO ability or growth opportunities. Thus, the difference in transaction class performance could be

explained by those unobservable factors not by the impact of being Class 1. To address this issue, I applied the concept of regression discontinuity design to figure out if there is a jump in CAR at the cutoff point where the transactions should have very similar relative size and the only difference is whether it needs shareholder approval or not.

According to Becht et al. (2016), the MRDD combined the four main transaction size calculation based on the class tests into a single metric, and then related this metric to the announcement returns. If mandatory shareholder voting matters, then abnormal announcement returns as a function of this metric would be expected to change discontinuously or jump at the 50% threshold. In other words, Class 1 transaction just above 50% should have significantly higher CAR than Class 2 transactions just below the threshold.

In this MRDD, we have a treatment variable that has four components. I collected the four component variables from company disclosure to SET on deal announcement: the ratio of net tangible assets, the ratio of profits, the ratio of total consideration, and the ratio of newly issued share. If any one of these four ratios exceed 50%, then the transaction is more likely to be classified as Class 1 and then subject to mandatory shareholder approval. A transaction is more likely to be Class 1 and subject to shareholder voting when the following is true:

$$Class1(M) = \begin{cases} 1 \; if \; M \geq 0 \\ 0 \; otherwise \end{cases}$$

Where $M = Max(R_1, R_2, R_3, R_4)$

$R_i = x_i - x'$ for $i = 1, 2, 3, 4$

x_1, x_2, x_3, x_4 are the four component variables

$$x' = 50\%$$

M is a continuous, observable variable and is defined as the maximum of the four component variables corresponding to the threshold tests when each variable is centered at 50%. Then, the Class dummy can be written as function of M. Thus, I can use M as a forcing variable in regression discontinuity methods to estimate the treatment effect of class assignment on cases close to M. I applied the rdrobust function in Stata to estimate the jump in CAR around M = 0 to test Hypothesis 1a.

EMPIRICAL RESULTS

1. Univariate analysis

Table 8: Univariate mean comparison

Panel 1

	Class 1	Class 2	Difference	t-statistic mean difference test
CAR(-1,+1)	1.51	1.19	0.32	0.19
CAR(-2,+2)	1.48	1.09	0.39	0.23
N	23	28		

Panel 2

	Class 2	Class 3	Difference	t-statistic mean difference test
CAR(-1,+1)	1.19	0.50	0.69	0.69
CAR(-2,+2)	1.09	0.52	0.57	0.56
N	28	77		

According to Hypothesis 1a, Class 1 transactions have insignificantly better performance than Class 2. The average CAR(-1,+1) for Class 1 is 1.51% and 1.19% for Class 2. The respective mean for CAR(-2,+2) is 1.48% and 1.09%. The difference is insignificant in both cases. As for Class 3, the average CAR(-1,+1) is 0.5% and CAR(-2,+2) is 0.52%. Class 2 also performed better than Class3 when considering the difference magnitude, but it is still not statistically significant. Thus, the test failed to reject both Hypothesis 1a and 1b.

2. Multivariate analysis

Table 9: Multivariate Analysis

VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5
Class 1 status	1.005	0.829	1.079	0.858	1.099
	(1.652)	(1.671)	(1.733)	(1.750)	(1.840)
Class 3 status	-0.0743	0.351	0.513	0.881	0.429
	(1.421)	(1.362)	(1.293)	(1.265)	(1.445)
Relative size			0.0172	0.0150	0.00464
			(0.013)	(0.0127)	(0.0142)
All cash consideration			2.228	1.844	0.918
			(2.747)	(2.686)	(2.737)
Private target			-3.147	-0.315	-0.0277
			(3.124)	(2.633)	(3.034)
Cross border			2.414*	1.952	1.455
			(1.405)	(1.329)	(1.471)
Merger			-0.343	0.150	0.458
			(1.133)	(1.113)	(1.176)
Diversifying			-1.061	-1.101	-0.968
			(1.113)	(1.121)	(1.134)
# Industry activity			0.359	0.348	0.341
			(0.336)	(0.336)	(0.355)
Firm size					-0.0527
					(0.496)
Tobin's q					-0.692
					(0.460)
Free cash flow					0.0040
					(0.0425)
Leverage ratio					0.0013
					(0.0331)
Year dummies	YES	YES	YES	YES	YES
Industry dummies	YES	YES	YES	YES	YES
Constant	-1.228	-0.649	-6.746	-5.714	-2.716
	(6.529)	(9.991)	(7.468)	(11.01)	(12.94)
Observations	128	126	128	126	126
R-squared	0.243	0.256	0.289	0.287	0.312

Model (2), (4) and (5) excludes 2 transactions that missing accounting data of acquirers: one is class 1, and another is class 3. Robust standard errors are in parentheses. *, **, *** denote significance at the 10%, 5% and 1% levels, respectively.

Table 8, reports the multivariate OLS regressions results of CAR(-1,+1) on acquirer and deal characteristics, with standard error clustered by acquirers. There are 2 model specifications for the full sample and 3 models for the sample excluding transactions with missing accounting data. Deal characteristics are added in Model (3)

and (4) and firm characteristics are added in Model (5). In general, the coefficients of control variables have signs that are consistent with past literature, but all of them except cross border in model 3 are not statistically significant.

The difference in CARs between Class 1 and Class 2 is aligned with univariate mean comparison, but its magnitude of difference is larger. The difference is higher when introduce more control variables. However, all models indicate no significant difference between Class 1 and Class 2. Thus, it failed to reject Hypothesis 1a. Moreover, it is interesting in case of Class 3 that when introduce control variables in the models, the coefficients of Class 3 dummy have positive sign which mean Class 3 contribute to more CARs than Class 2 which is not consistent with the result in univariate analysis and my expectation. Nevertheless, no model indicates that the difference is statistically significant and Hypothesis 1b is also unable to be rejected.

As the results are not consistent with my prediction derived from the past literature, the first to be discussed is the impact of mandatory deal information disclosure in Hypothesis 1b. It seems that the basic required information such as financials of the target in the information memorandum is not considered as valuable in the shareholder perspective. Evidence showed that it is the additional voluntary disclosure that add value to shareholders as it credibly signal the positive private information that management was willing to reveal (Kimbrough & Louis, 2011; Fraunhoffer et al., 2018).

As for Hypothesis 1a, mandatory shareholder voting may not be effective governance mechanism in coping with management discretion in mergers and acquisitions. There are some possible explanations about this phenomenon. Firstly,

there is only one deal that is disapproved by shareholders. Moreover, two deals that were received negative opinion by IFA are still passed the vote anyway with more than 99% approval rate. In fact, deals that required shareholder voting received almost 100% approval rate in all cases. From my observation on the minute of shareholder meeting, the agenda is considered more like formality and notice rather than soliciting for actual involvement. Moreover, according to Public Limited Companies Act, Section 103, there must be at least 25 attendees, both eligible and authorized shareholders; or no less than half of total shareholders holding no less than one third of the issued shares. I found that the average attention rate represented 75.32 percent of total issued shares held by the attendees and number of shareholders attended by proxy is not significant. As mentioned, the percentage of issued shares owned by top 5 shareholders is averaged up to 62.73 percent which means it could make the situation of concentrated ownership more severe. These observations could imply inactive shareholder monitoring roles in Thai listed firms which discussed in Thanatawee (2014). He concluded that firms with more domestic institutional shareholders indicated more active in monitoring management decisions and hence improved the firm value.

Moreover, another interesting observation is that 19 out of 23 Class 1 deals are related party transactions (RPT) defined as the transactions between a firm and its own managers, directors, principal owners, or their affiliates. Gordon et al. (2004) explored RPT as a corporate governance challenge as it made agency conflict more severe. Kohlbeck and Mayhew (2010) provided evidence in the US that firms involving in RPT have significantly lower valuations and marginally lower

subsequent returns than non-RPT firms. Thus, there is a possibility that RPT status have an offsetting effect on Class 1 status.

Table 10: Multivariate Analysis 2

VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3
% Top 5 shareholdings	-0.0717	-0.0607	-0.762
	(0.100)	(0.143)	(0.706)
Relative size		-0.00861	0.162
		(0.0379)	(0.200)
All cash consideration		0.419	37.32
		(10.13)	(44.36)
Private target		3.310	110.3
		(23.04)	(115.2)
Cross border		4.889	-6.991
		(9.284)	(19.30)
Merger		0.136	-31.31
		(9.256)	(34.80)
Diversifying		-3.677	-52.57
		(6.913)	(70.13)
# Industry activity		1.842	-41.10
		(5.873)	(64.13)
Firm size			4.266
			(5.089)
Tobin's q			5.228
			(5.033)
Free cash flow			0.471
			(0.900)
Leverage ratio			-0.481
			(0.688)
Year dummies	NO	NO	NO
Industry dummies	YES	YES	YES
Constant	4.242	-3.114	9.635
	(3.823)	(17.60)	(129.9)
Observations	23	23	22
R-squared	0.563	0.597	0.911

Model (3) excludes 1 transaction that missing accounting data of acquirers. Robust standard errors are in parentheses. *, **, *** denote significance at the 10%, 5% and 1% levels, respectively.

Finally, Thai firm ownership structure could also explain why shareholder voting is not effective. Dhnadirek and Tang (2003) suggested that ownership

concentration was considered to be the major problem of effectiveness of corporate governance in Thai listed firms. According to Table 10, as the coefficients of % Top 5 shareholdings have negative sign, the higher ownership concentration, the lower CARs. This is aligned with my expectation. However, its impact is not statistically significant.

3. Regression Discontinuity Design

Table 11: Regression Discontinuity Design Result

Panel 1			
	M = 0	M = -15	M = +15
	(1)	(2)	(3)
Jump in CAR	6.3887	2.2768	3.2842
	(6.7108)	(3.8887)	(4.311)
Panel 2			
	Coefficient		t-stat
All cash consideration	1.051		0.4769
Private target	-0.768		-1.1216
Merger	0.7828		-0.8644
Diversifying	-0.2824		0.0569
# Industry activity	-2.6698		-0.8782
Firm size	4.9947		1.1779
Tobin's q	-2.3854		-0.6537
Free cash flow	37.643		1.7838
Leverage ratio	-20.309		-0.4337

As discussed in methodology section, to cope with the concerns about reverse causality between Class status and relative size in multiple regression, I applied RDD approach via rdrobust function in Stata to find if there is a jump in CAR because of the treatment effect of Class 1 assignment. The estimates are based on the optimal bandwidth following Imbens and Kalyanaraman. In Table 11, Panel 1, within the +/-

44.84 bandwidth, at the threshold M = 0, there is a jump in CAR by 6.3887% indicating the treatment effect of being Class 1. However, this discontinuity is not statistically significant which is aligned with univariate and multivariate analysis. I also placebo tests for robustness at M = -15 and M = +15 if there is a jump in CARs outside the cutoff point. The result shows no significant change in CARs. Finally, in Panel 2, I cannot reject similarity in the observable covariates (deal and firm characteristics).

CONCLUSION

Agency conflicts and overconfidence CEO are the main explanations of the phenomenon that acquirer shareholders are, on average, worsen off in merger and acquisition activities. Literature argued that corporate governance in terms of shareholder involvement as monitoring role help improve the deal performance. In Thailand, the SET's Acquisition and Disposition Rule requires different degrees of shareholder involvement based on the transaction relative size. Class 1 with the most material size requires shareholder approval while Class 2 requires basic deal information disclosure circulated within 21 days from the deal announcement. Class 3 requires no shareholder involvement. I hypothesize about the difference in performance among transactions in these classes.

The result showed no significant difference in acquirer returns in both univariate and multivariate analysis which includes deal and firm characteristics as control variables. The result is the same when using the regression discontinuity design technic as a robustness test. Firstly, I investigate possibly influential characteristics of Thai firms which is ownership concentration. Based on literature, it should reduce the effectiveness of shareholder voting and have negative impacts on deal performance. However, I cannot find significant effects of more concentrated ownership. Then, I suspect two possible explanations from my observation when collecting data. Shareholder meeting is held as a formality rather than actual involvement in decision making. The shareholder monitoring role in Thai firms is not much active. Another is most of Class 1 transactions are related party transaction. Involving in RPT is evidenced that it reduces the shareholder value and should have

offsetting effect on Class 1 deal performance. As for deal information disclosure impact, the result implies that mandatory disclosure is not valuable in the shareholder perspective as compared to the voluntary disclosure which literature showed positive impact on deal performance.

Given the above results, I reinforce the possibility that inactive monitoring role of shareholders in Thai firms may have significant impact on corporate governance in many aspects. Moreover, for related party transaction issue, the SET also has a similar rule to the Acquisition and Disposition Rule that requires listed firms to apply threshold test in the size of RPT. If considered material, the RPT must proceed to shareholder approval in similar way to Class 1. This could be one way to further investigate effectiveness of shareholder voting on such high agency conflict agenda. I leave these issues for future research to investigate many aspects of shareholder involvement in corporate decision making.

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