

Outside block-holders and shareholders are not actively playing their role in monitoring of firms and don't have long term presence in the firm, which leads to asymmetric information about the company and reduce the prices of company

Mergers and acquisitions (M&A) are major events in the life of a firm. Role of bidder to acquire certain firm and payment mode are essential in the literature of M&A. Mode of payment depends on certain characteristics of firms such as bidder firm's ownership, financial, and corporate governance.

In the present study we found that bidder firm ownership variables have a significant impact on the mode of payment in nonfinancial sector of Pakistan. The managerial ownership have a negative and linear relation with cash payments in M&A, which reveals that managers are more concerned about firm's risk reduction rather than increasing their control through cash payments. The results also imply the validation of outside monitoring hypothesis i.e. the institutional investors are concerned with increased leverage (part of cash payment) in firm and thus increasing the monitoring of firms by outside creditors. However, outside block-holders are not actively playing their role in monitoring of firms and don't have long term presence in the firm. The bidder firm financial variables are proved to be significant determinants of payment mode in M&A deals. The positive relation of non-listed target with cash payment implies that shareholders of unlisted targets are more probably to accept cash payments given the concentrated and illiquid portfolio holdings by target firms.

The same analysis is conducted in financial sector and the results show that ownership and corporate governance variables don't have a significant impact on payment mode choice in M&As. Corporate ownership structure in Pakistan reveals that the promoters and directors ownership share is quite limited i.e. on average less than 11 percent in banking sector in Pakistan (Research Department, Institute of Cost and Management Accountants of Pakistan (ICMAP), 2011). Since, the most of the banks are controlled by dominant groups (e.g. Ibrahim, Nishat and Dawood Habib group etc.) through the associated companies, so the existence of major outside shareholders do not play a significant monitoring role in the firm. The bidder financial variables (i.e. cash availability and market to book ratio) and target firm characteristics are also proved to be significant determinant of payment mode choice. The results of deal amount determinants in nonfinancial sector show that cash ratio is negatively and market to book ratio is positively related to deal prices in M&A and results are also significant. Hence no agency problem in non-financial sector

because agency problems can also impact the amounts paid in mergers and acquisitions. Such conflicts happen when the managers of the bidder company use their excess cash flows to avail projects that are not in the benefit of the shareholders (Jensen, 1986). The results shows a positive and significant relation in case of both the bidder size and relative size of target with deal amounts, which implies the purpose of acquisition is not the value maximization but related with the aim of achieving a great size (Diaz and Azofra, 2009). The result also show that bidder firms are paying less in case of acquiring non-listed targets, that implies bidder firms acquiring public companies are motivated by personal incentives like increase in their status and prestige, so they are willing to overpay in case of public listed companies as compared to private targets..

The results of deal amount determinants in financial sector show a positive impact of bidder's return on equity and target relative size on deal amounts. These results justify the payment of a high price in case when managers are influenced by hubris and the purpose of the acquisition is not the value maximization of firm but related with the aim of achieving a great size. In Pakistan, the financial sector is suffering strict monitoring by State bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP) as a part of market reforms introduced by Government in 1990s. These restrictions include the increase in capital adequacy ratios, meeting the Basel II reforms and increase in number of branches of commercial banks.

Main Points

- Financial sector experience M&A in response to these regulatory requirement and the motive behind these acquisitions is the achievement of big size.
- Cash financed deals are associated with low prices, which depends on the existence of asymmetric information about bidder company.
- If insiders of the bidder firm know that their shares are overvalued, they will be more willing to pay in form of stock. So the price is higher for mergers and acquisitions paid in stock rather than paid in cash.

Yasmin Akhter and Attiyad Javed (2013), "What Determines Method of Payment and Deal Amount of Corporate Mergers and Acquisitions in Pakistan", Presented at the PIDE