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Testing the Validity of Hubris Hypothesis: Evidence from Nigeria

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Abstract

The paper seeks to empirically test the hubris hypothesis using evidence of the merger between Flour Mills PLC (bidding firm or acquirer) and Nigerian Bag Manufacturing Company PLC (Bagco) (target firm or acquiree) as a case study. In doing this, the acquiring and target firms' stock prices were utilized to compute abnormal returns using the standard event study methodology and adopting 28 trading days prior to the announcement date and 28 trading days after the announcement date. The empirical finding shows evidence of hubris behind mergers, as pure economic motive did not totally explain the takeover motive. Considering these empirical findings, the study recommends that there is a cogent need for the regulatory authorities to ensure that all processes to bids are critically sanctioned and monitored up to the post-synchronization stage of the merger or acquisitions. This is necessary to optimize the economic benefits inherent in such mergers or acquisition and this will no doubt minimize managerial overconfidence, pride or irrationality which tends to create less value for the acquiring firm shareholders.

Key words: Hubris Hypothesis, Overconfidence, Mergers & Acquisition, Event Study, Nigeria

JEL Classification: G14, G32, G34

Paper Classification: Research Paper

Introduction

Typical investigation in the field of corporate finance is grounded on the notion that managers are egocentric, rational utility - maximizers. For instance, the principal-agent relationship that subsists between managers and investors is grounded on self-centered managerial rationality. The current study in behavioral finance has tried to ascertain the effect of managers' irrationality on their decision making. Managers might act irrationally while making decisions that are referred to as 'bounded-rational'. Bounded rationality in manager results in cognitive biases that make managers make wrong decisions. A plethora of researches has been carried out to explain the impact of behavioral biases borne by the managers. Managers who make decisions under the influence of such behavioral biases may get poor outcomes.

One of the most contested biases in behavioral finance is the "managerial hubris" which was first presented by Roll (1986). Hubris hypothesis as presented by Roll provides a different

perspective of explaining financial occurrences, particularly in the field of corporate finance. Though as a concept it was presented many years ago. According to Douglas (1996), hubris is used to explain a personality class of excessive or dangerous overconfidence or foolish pride. Cohen (2009) posits that in ancient Greek, Hubris refers to actions that show and humiliate the victim for pleasure or gratification of the abuser. Picono, Dagnino, and Mina (2014) assert that hubris means overconfident pride combined with arrogance. Hubris symbolizes a sort of irrationality (or over-optimism) from the perspective of the managers that want to acquire another firm. While taking investment and financial decisions, overconfident managers usually suffer from “hubris” that is, the propensity to over-invest or under-invest.

Decisions based on Hubris or overconfidence makes the decision-makers overstate their problem-solving abilities while underrating the resource inadequacy and uncertainties faced by their companies (Camerer & Lovo, 1993). Overconfidence is a feature found in some types of people of the general population, being predominant among corporate managers - Chief Executive Officer (CEOs). Managers under the influence of hubris suffer from overblown egos and might take risks which are detrimental to the shareholders (Sanders & Hambrick, 2007). The manager under the influence of hubris not only ruins his own career but also damages the fundamental interest of his company (Heaton, 2002).

Roll (1986) argues that hubris connotes enormous gains for target stockholders and small or no gain for the stockholders of the acquired company which is not in consonance with wealth-creation intentions of mergers and acquisitions. Roll posits that because managers are overconfident and thereby overrating the profits from the acquisition and pay more than what they ought to pay for the acquisition. The hubris hypothesis suggests that overconfident managers who embark on corporate takeovers are likely to create less value compared to their rational colleagues. Hubris hypothesis means that in transactions involving takeover, the movement of wealth flows from the buyer firm stockholders to the seller firm stockholders and there is no creation of wealth for acquirer firm shareholders in the process. Consequently, the bidder firms' pride or hubris may influence a takeover (Hayward & Hambrick, 1997).

Managers under the influence of hubris overrate their capacities and the future result of the projects they undertake as they underrate the risk inherent in a potential acquisition. Consequently, managers end up giving high premiums to the target firms which resultantly destroys value for their own firm. According to Roll (1986), the profits to seller stockholders are not as a result of doing synergies but signify wealth relocations from buying companies' stockholders. Given that no tangible wealth was created for the collective unit, hence no total gains is inherent in the acquisition. Roll (1986) opines Hubris hypothesis serves as a behavioral method to explain takeovers. It implies that the managers of purchasing companies overrate their capacity to evaluate possible targets for acquisition. This managerial irrationality usually leads to inaccurate choices (Trautwein, 1990). Hubris hypothesis implies that whenever there is a takeover announcement, the stockholders of the purchasing companies suffer a loss owing to fall in their equity prices while the selling companies usually gain from the rise in their equity prices. The major motive for this is that when companies publicize a proposal for acquisition to the target, the target firm's price of shares rises because stockholders in the target companies are prepared to give away shares because of the huge premium that bidding companies are willing to offer.

According to Martynova and Renneboog (2008), hubris might be motivated by the ‘herding-phenomenon’, that is, companies usually imitate the activities of companies ahead of them. If fruitful acquisitions inspire other firms to embark in mergers or acquisitions, most of these mergers or acquisition suffer from managerial irrationality or hubris. Most firms that embark on

acquisition earlier in the wave of takeover realize returns that are positive, however, the market responds adversely to future acquirers. The adverse response is in tandem with the existence of hubris in mergers and acquisitions (McNamara, Haleblan & Dykes, 2008).

Hubris and agency-based acquisitions counter stockholder benefits by reducing their value. Though, in agency driven acquisition, managers purposely pay more for acquisition to exploit their personal gains. Though managers influenced by hubris might have good intentions, but their offers will reduce the value as a result of wrong estimations of target company value (Seth, Song & Pettit, 2000). Synergy, hubris as well as agency-based acquisition leads to diverse possibilities regarding the abnormal returns to stockholders of both target and bidding firms. From the perspective of the synergy theory, abnormal returns are likely to be positive to stockholders of both target and bidding firms. From the agency and hubris point of view, stockholders of bidding firms are likely to have negative abnormal returns whereas stockholders of target firms are anticipated to have positive abnormal returns. Thus, in hubris-driven mergers, the stockholders of target firms appear to benefit more than stockholders of acquirers if companies decide to carry on with the acquisition. This is because managers of the bidding company overestimate the synergistic gains from the takeover, leading to the wrong valuation of the target firm. Thus, hubris-driven managers acquire other firms based on valuations that were not correctly done, estimating the target firm higher than the market price, resulting in an overpayment due to non-existing or unrealized synergy opportunities.

Hubris leads to a wealth transfer from shareholders of the bidding companies to the shareholders of the target companies' hence the synergy is not significant. Warren Buffet describes managerial hubris as a fairytale where the bidders see themselves as a princess that can transform a toad into a handsome prince with a gentle kiss. By incorporating a target in their own company, many corporate acquirers believe that miracles will happen with the target firm's operations. In the 1981 Berkshire Hathaway Annual Report, Warren Buffet states that: 'We have observed many kisses but very few miracles'. In this quote, Buffet indicates that acquirers may overestimate synergy gains from a merger and their ability to realize these synergies. In overestimating their own ability to create miracles with the target, acquirers merely pay a huge amount to acquire the targets and that is the foundation of the hubris motive.

The majority of the earlier studies seem to suggest that stockholders of bidding companies incur a minute loss or occasionally gain marginally while the stockholders of the target firms get a huge gain. Few empirical studies have been carried out to validate or invalidate this human irrationality (managerial hubris) in Nigeria. Against this background, this research attempts to fill this void by examining the implications of managerial irrationality (hubris) in merger and acquisitions and this will be achieved by looking at stockholders' wealth effects against merger information release in the Nigerian capital market. The study gives insights into behavioral finance and concurrently updates understanding about stockholders' wealth effects on takeover announcements in the Nigerian context.

Research Question

Does the target firm stockholder gain more than acquirers' company shareholders during the period of merger and acquisition announcement?

Research Objective

The main goal of this research is to empirically examine managerial hubris (managerial irrationality) in the merger and acquisition announcement in Nigeria. In specific terms, the researcher seeks to:

- (i) Ascertain whether a target company shareholders will benefit more than stockholders of acquirers for the period of the M&A announcement. Under the hubris hypothesis, the expectation is that stockholders of acquirers' firms have negative abnormal returns, whereas stockholders of target firms have positive abnormal returns.

Review of Literature

Concept of Merger and Acquisitions (M&A)

Merger arises when two firms combine but only one of the companies continues to exist as a consolidated entity. Mergers are usually friendly in nature and the management teams are all participants in the negotiation process, whereas takeovers or acquisitions are in most cases negotiated through tender offers that do not often allow the target's management to participate in the negotiation process. A situation when the company that is bidding directly contacts the shareholders of the target company and offers to buy all or some of the company's shares is referred to as the tender offer. The offered price is typically at a premium compared to the existing price in the market. Broadly speaking, M&A is generally used to explain an aspect of corporate strategy that deals with the selling, buying and combination of firms (Gaughan, 2007).

Merger Motives

The three most accepted motives for merger and acquisitions which have been identified in extant literature are synergy, agency, and hubris. Another categorization like empire building, monopoly theory, process theory, valuation theory, and efficiency theory has also been identified in extant literature. However, all these other categorizations are variants of synergy, agency and hubris motives. The primary difference between these motives has to do with the attitudes and the decision-making influence of the manager. The empirical literature has shown that there is a possibility for the simultaneous existence of these three widely accepted motives for takeovers in any sample of acquisitions. Acquisition motivated by synergy may show evidence of hubris when managers are ready to pay more than the current market value.

The synergy motive: Synergy rationale proposes that takeovers happen when the collective value of the company is higher than the aggregate values of the individual companies. Thus, a merger motivated by synergy implies that the target and acquirer firm's manager's work for the benefit of their different stockholders, that is, they strive to maximize their wealth through economic gains.

The agency motive: Agency rationale proposes that managers of the bidding firm engage in acquisitions to maximize their own utility and self-interest to the detriment of the shareholders of their firm. The implications of this action might lead to a negative wealth effect that is harmful to the stockholders. This is feasible because of the agency relationship which subsists between the firm shareholders and managers.

The hubris motive: Hubris rationale proposes that overconfident managers of bidding firm unknowingly commit an error in estimating the target firm potentials (that is they either overvalue the firm or overestimate the gain derived from the acquired firm), which results in drop in the value of the wealth of their shareholders when embarking on takeover. Hubris can also be induced by the pride of the manager of the acquiring firm, this is when the manager does not want to lose, in circumstances when the acquisition is not friendly or when the price that most of the bidders are offering is above the intrinsic value, in an auction-style (which is also known as the winner curse). In extreme cases of the hubris rationale, the overpayment is so significant that it canceled

any prospective synergies. The final outcome results in a gain for shareholders of the target firm and this is only a simple movement of wealth from the bidding company, leading to a zero-sum net total outcome (Seth, Song, and Pettit, 2000).

Empirical Literature

A limited number of empirical studies have sought to test the managerial hubris inherent in takeovers. For instance, Lang, Stulz and Walking (1989) examined the influence of tender offers on bidders returns. They found that tender offer negatively influences bidder returns. Also, Houston and Ryngaert (1997) found that acquirer bank stockholders have negative abnormal returns. However, the study carried out by James and Wier (1987) in the United States found that bidder banks receive positive abnormal returns. Other studies that found similar results include Neely (1987), Trifts and Scanlon (1987), Cybo and Murgia (2000), Fabio (2010), Houston and Ryngaert (1994).

Berkovitch and Narayanan (1993) studied the motives behind corporate takeovers using the gain of target, gain of the acquirer and total gain to determine whether there were agency, synergy and hubris motives in the acquisitions. The outcome of their study reveals that the primary motive for the takeovers is synergy since cumulative gains were positive. The results also show that hubris motives also coexist with the synergy motive. There was also evidence of agency motive as total gains in some of the samples were negative. Seth, Song, and Pettit (2000) studied the underlying rationale for the acquisition of companies in the U.S. by firms from other countries. The researcher found that synergy theory is the leading justification for the takeover of United State firms by firms from other countries. The result further reveals that synergy and hubris motives simultaneously explain the acquisitions in the sampled firms. Muller and Sirower (2003) conducted a study to test for the existence of hubris and managerial discretion in merger and acquisitions utilizing data of 168 companies for the period 1978 – 1990. Results from the study confirm that hubris and managerial discretion are the motives that drive the merger and acquisitions. The result of the study conducted by Sundarsanam and Mahate (2003) shows a negative influence on bidder returns.

Frederikslust, Van Der Wal and Westdijk (2005) investigated the motive behind mergers and acquisitions that take place in Amsterdam Stock Market from 1954 to 1997 using a sample of 101 firms. Findings from the study showed that bidding and target firm CAR were negatively correlated which is a confirmation that takeovers were hubris driven. Neelam, Surendra, Yadav, and Jain (2008) carried out research to ascertain whether M&A affects the wealth of stockholders. Their result revealed that foreign companies' takeovers bring about short-term shareholders wealth in the acquiring firms on the announcement day. Lin, Michanyluck, and Oppenheimer (2008) test if there was hubris in merger and acquisitions implemented by Japanese firms. The event study result reveals that the gains from the takeover deals were overestimated by the managers and this confirms that the acquisitions were hubris driven.

Zegers (2009) conducted a study to ascertain the motive behind acquisitions that take place in Dutch companies from 1994 to 2008. The outcome of the analysis confirmed that the primary motive for the takeovers was synergy. The researcher further found that hubris and synergy motives coexist in some of the samples. Eckerstein, Kristensson, and Pollack (2009) investigated the existence of hubris in Nordic markets using tender offer completed between 1993 to 2008. The empirical result revealed that the tender offer in the Nordic market was driven by hubris. Flugt (2009) investigated whether value was created for shareholders of bidder and target companies in M&A announcement made in the European Union from 2000 to 2008. A total deal of 288 constitutes the sample. The outcome of the study confirmed that the synergy motivation drives the takeovers.

Lamprinakos and Fulton (2011) studied the acquisition of Dairyworld by Saputo in Norway with the goal of establishing the motive for the takeover. The result of the event study revealed that the takeover was not hubris-driven as Saputo stock price increases during the takeover announcement. Malabika and Aasif (2012) examined the applicability of Hubris hypothesis for mergers and acquisitions carried out in India. The researchers utilized the event study technique to test the short-term reaction of the market to merger announcements in the Indian banking and information technology sector. Their result fails to validate the existence of hubris in Indian acquisition. Nguyen, Yung, and Sun (2012) conducted a study to investigate the motive for M&A in the United States utilizing a sample of 3,520. Empirical findings reveal that 73% show evidence of market timing; 59% of the mergers exhibit agency and hubris rationale; and 3% are related to shock in industry and economy. Also, results revealed that approximately 80% of the sampled mergers show evidence of increasing and decreasing value motives, an indication that multiple motives may coexist.

De Bodt, Cousin and Roll (2014) investigated the validity of the hubris hypothesis using M & A data of USA listed firms. The outcome of the study confirmed the existence of overbidding which validates the hubris hypothesis. Quair (2014) conducted a study to ascertain the motive behind acquisitions that took place in Canada from 1985 to 2010. These acquisitions were carried out using tender offers. The researcher investigated if there were correlations among target gain, total gain and acquirer gain to decide whether it was synergy, agency and hubris motives that drive the acquisitions. The outcome of the analysis confirmed both synergy and information theories. The researcher further found that, apart from synergy, agency motive has become gradually more vital in explaining acquisitions that are unsuccessful through tender offers in the sample period. The researcher fails to find any proof to support the hubris motive. Majeedullah, Safiullah, and Muhammad (2017) investigated the motive behind mergers and acquisitions that took place in Pakistan from 1995 to 2013. The outcome of the study confirmed the existence of empire-building motive while no evidence of managerial hubris was found.

In conclusion, the review of empirical literature seems to suggest that few empirical studies have been conducted to validate or invalidate the hubris hypothesis particularly in developing countries like Nigeria, hence the need to carry out the study.

Methodology

The study utilized the standard event study technique utilizing the Market Model propounded by Fama (1976). The announcement of the acquisition of Nigerian Bag Manufacturing Company PLC (Bagco) by Flour Mills PLC constitutes the event in this study. The window of event utilized in the study is fifty-seven days of trading, covering twenty-eight trading days before the day of the announcement (-28); the exact day of the announcement (0) and twenty-eight days of trading after the day of announcement (+28). Though Panayides and Gong (2002) posits that eleven trading days event window spanning five days prior to the announcement date and five days post-announcement day is enough to show the outcome of an event, in the study employed a longer window of event given that Nigeria being a frontier market is usually less efficient when compared to developed markets, hence the rate at which it accommodates new information regarding the prices of stock tend to be slower (Afego, 2010). Therefore, it becomes advantageous to use a long window of the event to reflect this adjustment speed. Thus, an event window of fifty-seven trading days, covering an event window of twenty-eight days prior to the day of announcement, the exact day of the announcement and twenty-eight days after the day of the announcement. The data utilized in the study are taken from secondary sources and these data comprises daily prices of stock of Flour Mills PLC and that of the Nigerian Bag Manufacturing

Company PLC as well as the Nigerian Stock Exchange All-Share Index (NSE-ASI). The required data were sourced from the website of the Nigerian Stock Exchange (NSE) and the web site of Cashcraft Asset Management Ltd.

Model Specification

Abnormal return is the main focus in an event study and it means the movement of the actual return from the expected or predicted return. Under the constant market model, the abnormal returns are evaluated by utilizing the following equation.

$$AR_{it} = R_{it} - (E(R_{mt})) \quad (1)$$

Where, R_{mt} = Daily Actual Returns.

The actual daily return rate is computed as:

$$R_{it} = [(P_{it} - P_{i,t-1}) / (P_{i,t-1})] \quad (2)$$

The expected return has been calculated using the market model specified as:

$$E(R_{it}) = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad (3)$$

Average abnormal returns of the individual security within the event days, that is, 28 days prior and 28 days post the day of the event. The Abnormal Average Return is computed using the model below.

$$AAR_{it} = \sum_{t=1}^N AR_{it} / N \quad (4)$$

Accumulating the abnormal returns for varied run-up windows is necessary as it gives an idea regarding the behavior of the average price of a stock for a period. The CAR is computed utilizing the model below:

$$CAR_t = \sum_{t=1}^N AR_{it} \text{ Where } t = -28, = 28 \quad (5)$$

The summary would be predicated on the outcome of students 't' which is explained below.

$$T\text{-test for } AAR / [S(AAR) / \sqrt{N}] \text{ \& } CAAR / [S(CAAR) / \sqrt{N}] \quad (6)$$

$S(AAR)$ & $S(CAAR)$ signify the standard deviation (σ) of abnormal and cumulative average returns.

Empirical Results

The examination of the results commenced by first establishing the stationarity of the respective firms' stock returns and market returns series. Carrying out the test became necessary so as to guide against using variables that are not stationary that might result in incorrect results. Table 1 gives a summary of the unit root test result conducted on the stock returns and market returns series of the two firms using the ADF test.

Table 1: Results of Unit Root Test (Augmented Dickey-Fuller Test) for Stationarity of Merger Announcement for the variables utilized for the Event Window

Variables	ADF Test Statistic	Critical Value @ 5%	Remark/Order of Integration
RSPF	-6.1332	-3.5527	Stationary I(0)
RSPB	-6.0572	-3.5527	Stationary I(0)
RASI	-12.4624	-3.5527	Stationary I(0)

(**) denotes significance at 1% level

Source: Eviews 7.0 Output, 2017

Table 1 reveals the summary results obtained from the test of stationarity conducted on the variables. The two stock returns and the market return in Table 1 were found to be stationary at levels. The evidence of the stationarity of these three series can be seen from the significance of the respective ADF statistics. That is, the ADF statistics are higher than the critical value for the three series at 1% levels. Therefore, the null hypothesis which indicates the presence of unit root in the stock returns series of Flour Mills PLC and Nigeria Bag PLC was rejected at the 1% levels. The implication of this finding is that the return series of the two companies is stationary and integrated of the order 1(0). For the market return, the ADF test conducted confirmed the stationarity of the series at levels as evidenced by the significance of the test statistics. This implies that there is no unit root in the market return at levels. Thus, the market return is integrated into order 1(0).

Having passed the preliminary test, the individual sample firm abnormal returns are summed up to get the abnormal return for both firms. Additionally, the abnormal return was added across time to get the total or cumulative abnormal return. The descriptive statistics for the abnormal and total abnormal returns for the two sample firms for the event window is presented in Table 2.

Table 2: Descriptive Statistics of Event Window Abnormal and Cumulative Abnormal Returns

	AR	CAR
Mean	-0.033548	-1.618337
Median	4.30E-05	-1.785531
Maximum	0.080772	0.030241
Minimum	-1.310530	-1.953441
Std. Dev.	0.195259	0.553061
Skewness	-5.618169	2.413433
Kurtosis	35.18294	7.143474
Jarque-Bera	2759.742	96.10914
Probability	0.000000	0.000000
Sum	-1.912249	-92.24521
Sum Sq. Dev.	2.135055	17.12908
Observations	57	57

Source: Eviews 7.0 Output, 2017

From Table 2 the abnormal and cumulative abnormal return mean values are -0.034 and -1.618 respectively. Also, the measure of the dispersion around the mean (i.e., the standard deviation) is 0.195 and 0.553 for the abnormal and cumulative abnormal return. Also, the minimum values

for the abnormal and cumulative abnormal returns are -1.311 and -1.953. Similarly, the maximum value was 0.081 and 0.030 for abnormal and cumulative abnormal return respectively. The closeness of the minimum and maximum values of abnormal and cumulative abnormal returns implies a low variability rate between the series of returns.

The abnormal and cumulative abnormal return skewness which explains the extent of the distribution of the tail is also shown in Table 2. The value of the skewness is -5.618. This implies that the abnormal return of the distribution is inversely skewed, this means that the left tail is longer while the skewness of cumulative abnormal return is 2.413, this means positive skewness and the right tail is longer.

The kurtosis value for abnormal return in the descriptive statistics table is approximately 35.183, meaning that the distribution shows a flat surface and is thus platykurtic. The kurtosis value of the cumulative abnormal return is 7.143 which indicates platykurtosis (that is, the distribution has a flat surface).

Table 2 also reports the results of an important statistic as far as the significance test of total or cumulative abnormal return is concerned; the Jarque-Bera normality test. The abnormal and total or cumulative abnormal returns normality is a precondition for the t-test for the significance of cumulative abnormal returns. For the abnormal return, the table shows an approximate Jarque-Bera value of 2759.742 which is significant at one per cent level. This means that the null hypothesis is rejected and it indicates that the abnormal return is normally distributed. Hence, the Jarque-Bera result revealed that the abnormal return is not normally distributed.

The value of the Jarque-Bera for the cumulative abnormal return is 96.109. This value is significant at the 1% level, resulting in the null hypothesis rejection. The import of this is that cumulative abnormal return is not normally distributed. Therefore, it can be concluded that the two variables of interest (abnormal return and cumulative abnormal return) are not normally distributed. Thus, results from the Jarque-Bera normality test revealed that the abnormal return and cumulative abnormal return series is not normally distributed. Since the distributions are non-normal, the parametric analysis will be used to test group means. Accordingly, the parametric 2-sample t-test was utilized for the significance test of the daily total abnormal return for the fifty-seven days within the event window. Tables 3 and 4 provide a summary of the results showing the daily total or cumulative abnormal return (CAR) and abnormal return (AR) for before and after the event (M&A) announcement for both companies involved in M&A. Also presented are the t-test statistic and graphs.

Table 3: The Event Window Abnormal and Cumulative Abnormal Returns for Flour Mill PLC

Days	Pre-Merger and Acquisition Announcement		Post-Merger and Acquisition Announcement		
	AR1	CAR1	Days	AR2	CAR2
-28	-0.001	-0.001	0	-0.021	-1.870
-27	-0.003	-0.004	1	0.009	-1.861
-26	-0.003	-0.007	2	-0.004	-1.865
-25	-0.001	-0.008	3	0.029	-1.836
-24	0.023	0.015	4	0.033	-1.803
-23	0.003	0.018	5	0.031	-1.772
-22	-0.941	-0.922	6	-0.002	-1.774
-21	-0.913	-1.835	7	-0.001	-1.775
-20	-0.008	-1.844	8	0.013	-1.762
-19	-0.007	-1.850	9	-0.002	-1.764
-18	0.031	-1.819	10	-0.004	-1.768
-17	-0.010	-1.829	11	-0.009	-1.777
-16	0.015	-1.814	12	0.001	-1.776
-15	0.000	-1.815	13	-0.002	-1.779
-14	-0.057	-1.872	14	-0.003	-1.782
-13	-0.047	-1.919	15	0.002	-1.781
-12	-0.012	-1.932	16	0.001	-1.780
-11	-0.004	-1.936	17	0.046	-1.733
-10	-0.012	-1.949	18	-0.033	-1.766
-9	0.029	-1.919	19	0.036	-1.731
-8	0.038	-1.881	20	-0.001	-1.731
-7	-0.007	-1.888	21	-0.040	-1.771
-6	-0.003	-1.892	22	0.001	-1.770
-5	0.022	-1.870	23	0.004	-1.766
-4	0.040	-1.830	24	-0.001	-1.767
-3	-0.012	-1.842	25	-0.007	-1.774
-2	-0.011	-1.853	26	-0.011	-1.786
-1	0.004	-1.849	27	0.010	-1.775
0	-0.021	-1.870	28	-0.006	-1.781

AR and CAR denotes event window abnormal and cumulative abnormal returns

Source: Eviews 7.0 Output, 2017

Table 4: The Event Window Abnormal and Cumulative Abnormal Returns for Nigeria Bag Plc.

Days	Pre-Merger and Acquisition Announcement		Post-Merger and Acquisition Announcement		
	AR1	CAR1	Days	AR2	CAR2
-28	0.016	0.031	0	0.057	0.092
-27	0.015	0.024	1	0.035	0.080
-26	0.009	-0.004	2	0.045	0.026
-25	-0.013	-0.011	3	-0.019	0.020
-24	0.002	-0.040	4	0.038	0.080
-23	-0.042	-0.412	5	0.042	0.027
-22	-0.370	-0.117	6	-0.015	-0.003
-21	0.253	0.217	7	0.012	-0.020
-20	-0.035	-0.020	8	-0.032	-0.053
-19	0.015	-0.027	9	-0.021	-0.037
-18	-0.042	-0.057	10	-0.016	-0.026
-17	-0.015	-0.027	11	-0.009	0.024
-16	-0.012	-0.012	12	0.033	-0.025
-15	0.000	-0.028	13	-0.058	-0.061
-14	-0.027	-0.025	14	-0.003	0.043
-13	0.002	-0.011	15	0.047	0.047
-12	-0.014	-0.018	16	0.001	-0.042
-11	-0.004	0.023	17	-0.042	-0.123
-10	0.027	0.002	18	-0.080	-0.094
-9	-0.025	-0.034	19	-0.014	-0.014
-8	-0.009	-0.026	20	-0.001	0.009
-7	-0.017	0.066	21	0.010	0.000
-6	0.084	0.056	22	-0.010	0.005
-5	-0.028	-0.081	23	0.015	-0.008
-4	-0.053	-0.109	24	-0.023	-0.002
-3	-0.056	-0.021	25	0.021	0.021
-2	0.034	0.086	26	0.000	0.010
-1	0.052	0.109	27	0.010	-0.001
0	0.057	0.092	28	-0.012	0.010

AR and CAR denotes event window abnormal and cumulative abnormal returns

Source: Eviews 7.0 Output, 2017

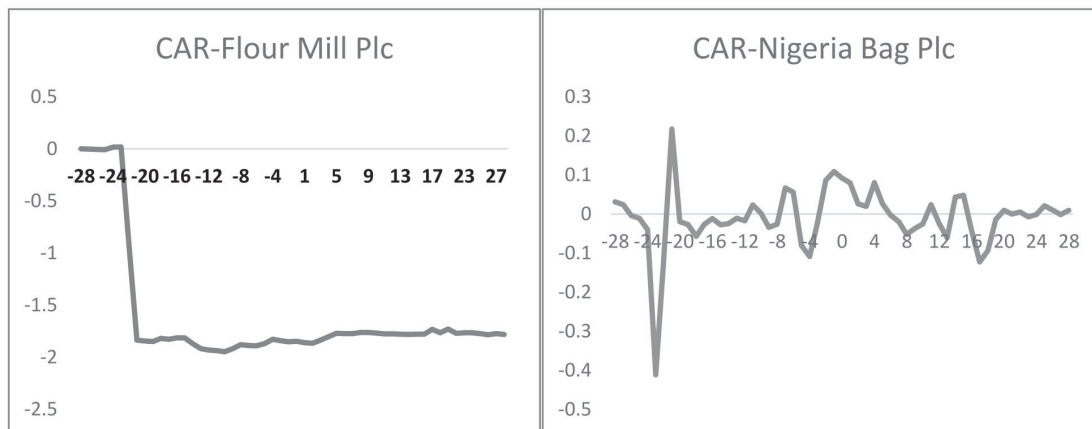
Table 5: Test for Difference in Cumulative Abnormal Returns

Companies	t-value
Flour Mill Plc	Mean Return Before M&A=-1.48 Mean Return After M&A = -1.78 t-value = -2.31 (0.00)
Nigeria Bag Plc	Mean Return Before M&A= -0.017 Mean Return After M&A = -0.0037 t-value = 0.609 (0.20)

* and ** signify 5% and 1% levels of significance.

Source: Eviews 7.0 Output, 2017.

Figure 1: Graph showing the Cumulative Abnormal Return for Flour Mill PLC and Nigeria Bag PLC



Source: Eviews 7.0 Output, 2017

From tables 3 and 4, it can be observed that abnormal return for all days within the window of the event running from twenty-eight days of trading before the announcement date and twenty-eight days of trading after the date of announcement (days -28 to +28). Table 5 clearly revealed that the cumulative average abnormal returns for Flour Mill PLC before the M&A announcement was -1.48% but became -1.78% after the announcement. This means that there was a decrease in Flour Mill PLC’s stock abnormal returns after the announcement of the acquisitions of Nigerian Bag Plc. This was further confirmed by the graph in Figure 1. Also, Table 5 shows that the difference in the abnormal cumulative returns of Flour Mill PLC before and after the M & A announcement was statistically insignificant.

Table 4 above clearly confirms that the average cumulative abnormal returns for Nigerian Bag PLC before the M & A announcement was -1.0166% but became -0.0037% after the announcement. This means that there was an increase in Nigerian Bag Plc stock abnormal returns after it was acquired by Nigerian Flour mill Plc. This was further confirmed by the graph in Figure 1. Table 5 also reveals a statistically significant difference in the pre-announcement and post-announcement abnormal cumulative returns of Nigerian Bag PLC.

The hubris hypothesis proposes that M & A affects the firm value as well as stockholder wealth. Hence, the hubris hypothesis is based on the prediction that when M&A announcement is made, the value of target companies’ stockholders increases whereas the value of the bidding companies stockholders reduces. Consequently, stockholders of bidding companies experience a minor loss or occasionally receive a minor gain whereas the target companies’ stockholders make a huge gain (that is, its post-announcement wealth effect is positive). The findings seem to suggest evidence of hubris (managerial overconfidence or irrationality) in the Flour Mills PLC acquisition of Nigerian Bag Manufacturing Company PLC (Bagco) given that there was a decrease in bidding firm (Flour Mill Plc) post-announcement abnormal returns while target firm (Nigeria Bag Plc) recorded an increase in post-announcement abnormal returns.

Conclusion and Recommendations

The paper seeks to validate or invalidate whether the hubris hypothesis explains takeovers announcement in Nigerian Listed firms, using the particular case of Flour Mills PLC (bidding

firm) and Nigerian Bag Manufacturing Company PLC (Bagco) (target firm) as a case study. In doing this, the acquirer firm stock prices (SPF) and the stock price of the acquired firm (SPB) before the date of the announcement, announcement date which is 10/9/2012, and post-announcement date were examined using the standard event methodology to ascertain market response to merger announcements in the Nigerian listed firms. The empirical findings show evidence of hubris (managerial overconfidence, pride or irrationality) behind the acquisition, suggesting that pure economic motive did not totally explain the takeover motive, hence, the hubris hypothesis which posits that bidding firm shareholders would sustain a loss on the announcement of merger and acquisitions is validated given that there was a decrease in bidding company (Flour Mill PLC) stock abnormal returns after the acquisition announcement while Nigeria Bag PLC (target firm) recorded increase in stock abnormal returns in the period after the announcement of the acquisition.

In the light of these empirical findings, the study recommends that there is a cogent need for the regulatory authorities to ensure that all processes to bids are critically sanctioned and monitored up to the post-synchronization stage of the merger or acquisitions. This is necessary to optimize the economic benefits inherent in such merger or acquisition and this will no doubt minimize managerial overconfidence, pride or irrationality capable of destroying the value of the acquiring firm shareholders.

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