IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 25, Issue 2. Ser. III (February. 2023), PP 43-48
www.iosrjournals.org

Impact of the Acquisition on Financial Performance And Company Value in Indonesia Stock Exchange

Tatok Endhiarto[1], Agus Priyono[2*], OppieMeilania Sukma[3], Rr. Tiara Amelia[4]
[1,2,3,4]*Economics and Business Faculty, Jember University, Indonesia*
**Author Correspondence*

Abstract
Many of companies choose acquisition to face the increasingly fierce competition in the business world.Itdoes not always give the best result in the end. This research aims to analyze the effect of acquisition to financial performance and firm value of acquisitor companies, both in the short term and long term. The data used secondary data from the annual report of companies that doing acquisitions for the 2011-2013 period that were listedin the Indonesian Stock Exchange (IDX). The analytical method use a comparative method which the company's financial ratios (CR, ROA, DER, TATO, and PBV) before and after acquisition, and employs the Wilcoxon Paired Sample Test to compare both of them. The result shows tha significant differences between liquidity, profitability, solvability, and activity ratios before and after acquisition. However, there is significant difference in firm value for short term period after acquisition, but no significant difference for long term.
Keywords: *Acquisition, Financial Performance, Firm Value, Indonesian Stock Exchange (IDX)*

Date of Submission: 11-02-2023 Date of Acceptance: 22-02-2023

I. Introduction

Financial Crisis in Europe in 2010 had an impact on the decline of demand from the European market so that competition for markets in the Asian region became increasingly fierce. The population of Indonesia, which at that time reached 237.56 million people(BPS, 2010), is certainly being attractiveness and give more opportunities for foreign companies who want to enter the Indonesian market. It can be a threat to local companies and industries. The financial crisis that occurred in the plains of Europe was one of the reasons for the increasing trend of mergers and acquisitions from 2011 to 2013. In 2011, at least 45 notifications of merger and acquisition (KPPU, 2011). Acquisition is a progressive strategy used to face increasingly fierce business competition and be able to survive. In addition, company can achieve the growth through merger and acquisition (Sharma, 2018). Until now, mergers and acquisitions have become a trend for corporate actions that are widely used as a business development strategy. Like the acquisition of financial technology (fintech) company, Akulaku, which officially became the controlling shareholder of PT Bank Neo Commerce Tbk. (BBYB) on July 26th, 2021.

The company’s motive of doing acquisition is to achieve a synergy, which can improve corporate performance and profitability (Rani, Yadav, and Jain, 2015). The company's goal, more specifically of acquisition is to increasing efficiency, diversifying, reducing tax spending, controlling, and expanding market segments (Utami, 2013). However, the facts show an anomaly which is proves that not all companies that make acquisitions have better financial performance. There is a phenomenon of synergy failure in several companies that make acquisitions. One of them is Lenovo, which revealed a loss for the first time in the last six years of US$2.91 billion, after acquiring Motorola in October 2014 ago (Fajrina, 2016). Besides, research by Oduro and Agyei (2013) also showed that the profitability of all the acquirer company in Ghana has dropped significantly after it has been acquired.

Based on this phenomenon, several questions arise such as whether merger and acquisition decisions can improve financial performance and firm value, and then how the performance of companies making acquisitions.The objective of this research is to by analyzing whether there are differences in financial performance and firm value between before and after the acquisition. The hypothesis of this researchis the acquisition can increase the financial performance and firm value, synergies and the full effect of the acquisition will be achieved in a fairly long period of time (long term).

The successful of acquisition can reflected by the financial performance and value of the company. The increasing of financial performance after acquisition becomes one of indicators that synergy of operations has achieved, differential efficiency increased, and also market share increased (Ombaka dan Jagongo, 2018). Identify the financial performance of a company in a certain period can be done by using the method of financial statement analysis (Keown, et al., 2002).Analysis of financial statement is carried out by measuring certain aspects using the calculation of financial ratios (Brigham and Houston, 2010). Financial ratios that can be used to represent the company's financial performance are divided into several groups of ratios, including: liquidity ratios, profitability ratios, solvency ratios, activity ratios, and market ratios.

Previous empirical studies still show a research gap, including research by Mahesh and Daddikar (2012) which shows that the merger of airlines in India does not bring a significant difference to their financial performance. In this finding, there is no significant increase in the company's Return on Equity, Net Profit Margin, Interest Coverage, Earnings per Share and Dividends per Share after merger & acquisition.

Abbas et al., (2014) conducted a study with the aim of analyze the impact of M&A on the financial performance of banks in Pakistan using 15 financial ratios classified as profitability, liquidity, and leverage ratios. The results showed that there was no significant difference in the bank's financial performance between before and after the acquisition. This means that the acquisition does not cause the bank's performance to improve. There is a decline in profitability, efficiency, liquidity, and leverage ratios. The financial crisis in 2007 was one of the reasons for the lack of improvement in financial performance. Another reason is the existence of liberalization and globalization where after the financial crisis banks tend to improve their system in any way, so they have to extend loans to stabilize the industry.

Pham (2014) conducted a study to analyze and compare the pre- and post-acquisition financial performance of four Czech banks (Czech Banks), including SOB, Komerčníbanka, eskáspořitelna and Hypotečníbanka. This study uses several financial ratio variables, including: Return on Assets (ROA), Return of Net Worth (RONW), Earning per Share (EPS), Debt Equity (DE), and Net Profit Margin (NPM). The results showed that the acquisition did not cause a significant change in the financial performance of banks in the Czech Republic.

Likewise, research by Erdoan and Erdoan (2014) shows that there is no significant difference in the company's CR ratio after the acquisition. Meanwhile, the opposite result is shown in Erdoan and Erdoan's (2014) research, where the ratio of Asset Turnover and company leverage in Turkey experiences a significant difference after the acquisition.

Fatima and Shehzad (2014) conducted a study to determine the effect of the merger and acquisition strategy on the financial performance of banks in Pakistan. Based on the research, it was found that only the ROA variable experienced a significant difference after the acquisition. Meanwhile, other variables such as profit after tax (EAT), ROA, DER, Deposit to Equity Ratio, and EPS are not affected by the merger and acquisition strategy. The existence of mergers and acquisitions is considered not to have a positive impact on the financial performance of banks in Pakistan.

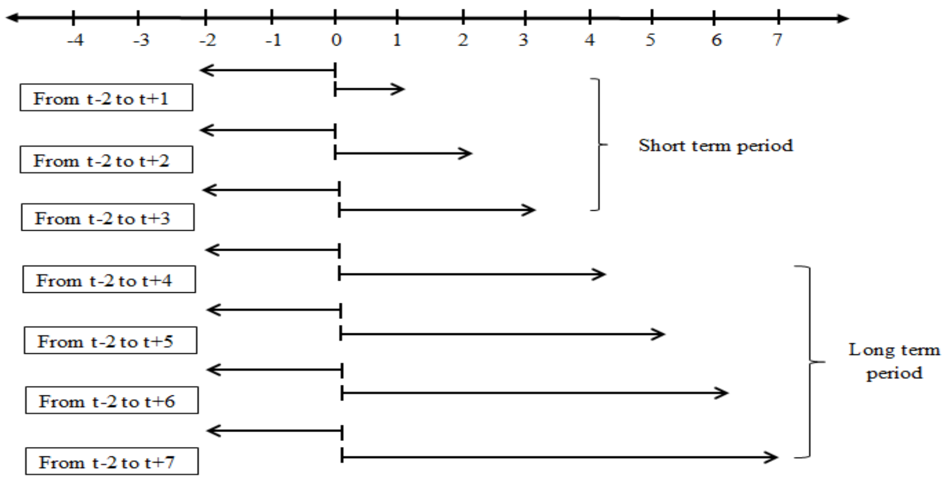
On the other result, research by Anthony (2017), shows that mergers and acquisitions have an impact on the existence of a significant difference in the financial performance of commercial banks in Kenya. The results showed an increase in the company's profitability which indicated an increase in the ROE ratio after mergers and acquisitions. In addition, mergers and acquisitions also lead to an increase in solvency ratios and CAR.

Rani, Yadav, and Jain (2015), in their research, gave the results of a significant increase in company profitability after mergers and acquisitions. The significant finding revealed by Rani, Yadav, and Jain (2015) explains that almost two-thirds (65 percent) of acquirers achieve economical selling, general and administrative costs, namely in the fourth and fifth post-M&A years.

However, the majority of empirical studies still use a short period of time to analyze the comparison of the company's financial performance before and after the acquisition. Empirical studies that examine the impact of acquisitions on company performance and value in the long term are still rare. Thus, further research is needed to prove the effect of acquisitions on financial performance and firm value over a long period of time.

II. Methodology

This research used a comparative research method by comparing each element (financial ratio) both in before and after the acquisition (Sugiyono, 2014).The event date or observation period used two years before (t-2) and seven years after the acquisition (t+7). To measure the impact of acquisitions in the short term, data is used for a period of 3 years after the acquisition (t+3), while the remaining period is used to measure the impact in the long term (t+4 to t+7). The base of year t-2 is assumed to be the year which the company is in a condition that is able to maturely formulate a strategy for the future. The range of research period is drawn by Picture 1 below.



Picture 1. Range of Research Period

The population of this research consisted of acquiring companies listed on the Indonesia Stock Exchange (IDX). While the research sample consists of companies that made acquisitions in the period 2011 to 2013 and provided complete financial statements during the year of observation. The data used in this study is secondary data obtained from the company's annual report or financial statements which can be accessed from the company's official website or the Indonesian Stock Exchange's official website.

The impact of acquisitions on financial performance is reflected through liquidity ratios, profitability, solvency, an activities (Ekabiakto dan Mulyana, 2018). Liquidity could measure by Current Ratio (CR), profitability measured by Return on Asset ratio (ROA), solvency measured by Debt to Equity Ratio (DER), and activities ratio measured by Total Asset Turnover ratio (TATO) (Brigham and Houston, 2010).Meanwhile, firm value is proxied by the PBV ratio (Ekabiakto dan Mulyana, 2018). The research analysis method consists of three stages. For the first is calculating each of financial ratios. Second, a normality test is conducted to detect the distribution or distribution of data for each variable and to determine the method of analysis of hypothesis testing. Third, determine the tool to test the hypothesis, where if the data is normally distributed then use the parametric Paired Sample t-test. Meanwhile, if the data is not normally distributed, then use the non-parametric Wilcoxon Paired Sample Test (Sanusi, 2019).

III. Results and Discussion

Based on the sample selection, the final resultsshows there are 19 acquiring companies that had fulfilled the criteria. Table 1 shows descriptive statistics for each variable.

Table 1. Statistic Descriptive of Variables

Variable	Period	N	Minimum	Maximum	Mean	Median	Standard Deviation
Current Ratio (CR)	t-2	19	0.43	7.07	2.237	1.51	1.647
	t+1	19	0.62	5.42	2.066	1.73	1.275
	t+2	19	0.78	6.9	2.220	1.43	1.609
	t+3	19	0.72	7.8	2.354	1.5	1.854
	t+4	19	0.49	7.93	2.526	1.41	2.215
	t+5	19	0.7	6.45	2.588	1.5	1.977
	t+6	19	0.65	9.2	2.767	1.5	2.556
	t+7	19	0.38	10.1	2.880	1.54	2.557
Return on Asset Ratio (ROA)	t-2	19	0	0.32	0.084	0.06	0.078
	t+1	19	-0.16	0.17	0.055	0.056	0.069
	t+2	19	0	0.31	0.075	0.05	0.073
	t+3	19	-0.04	3.2	0.202	0.04	0.727

	t+4	19	-0.12	0.38	0.053	0.04	0.099
	t+5	19	-0.04	0.46	0.065	0.04	0.103
	t+6	19	-0.07	0.18	0.037	0.03	0.056
	t+7	19	-0.12	0.21	0.041	0.02	0.066
Debt to Equity Ratio (DER)	t-2	19	0.01	10.63	1.793	0.89	2.706
	t+1	19	0.07	9.05	1.842	0.89	2.433
	t+2	19	0.03	9.03	1.899	0.97	2.362
	t+3	19	0.04	9.81	1.908	0.85	2.514
	t+4	19	0.02	8.99	1.663	0.72	2.351
	t+5	19	0.02	9.78	1.647	0.7	2.382
	t+6	19	0.02	9.22	1.585	0.7	2.299
	t+7	19	0.05	8.8	1.522	0.76	2.247
Total Asset Turnover Ratio (TATO)	t-2	19	0.12	3.25	0.778	0.54	0.763
	t+1	19	0.07	3.18	0.712	0.46	0.733
	t+2	19	0.12	3.24	0.743	0.44	0.744
	t+3	19	0.12	3.2	0.754	0.45	0.747
	t+4	19	0.07	2.5	0.682	0.39	0.617
	t+5	19	0.1	2.36	0.688	0.36	0.607
	t+6	19	0.1	2.22	0.651	0.42	0.558
	t+7	19	0.1	2.07	0.620	0.45	0.528
Price to Book Value Ratio (PBV)	t-2	19	0.22	5.33	1.820	1.49	1.513
	t+1	19	0.17	10.37	2.724	2.26	2.395
	t+2	19	0.1	10.66	2.750	2.39	2.845
	t+3	19	0.26	7.43	2.706	2.61	1.853
	t+4	19	0.2	5.7	1.850	1.03	1.658
	t+5	19	0.36	5.7	1.811	1.26	1.481
	t+6	19	0.2	5.66	1.650	1.53	1.494
	t+7	19	0.27	5.55	1.737	1.53	1.539

As can be seen in the table, the average of CR increased after the acquisition. The average of ROA variable fluctuated quite a bit, which had increased in the third year after the acquisition (t+3) and then decreased in the fourth year (t+4) until the seventh year after the acquisition (t+7). The average of DER variable increased from two years before the acquisition (t-2) to 4 years after the acquisition (t+4), but in the long run it tends to decrease. Meanwhile, the average TATO variable continued to decrease from two years before the acquisition (t-2) until to seven years after acquisition. The average PBV variable in the short term increases after the acquisition, then decreases after the acquisition.

Before testing the hypothesis, a prerequisite test for the normality of the data is needed and the result is that the data is not normally distributed. Thus, the test of hypothesis finally used the Wilcoxon Paired Sample Test (Pham, 2014). The results of hypothesis test using the Wilcoxon Paired Sample test are presentedby table 3 below.

Table 3. Wilcoxon Paired Sample test on Variables

Description	Mean Before Acq. (%)	Mean After Acq. (%)	Mean Diff. (%)	p-value	Null Hypothesis (H0)
Panel A. Current Ratio (CR)					
t-2 to t+1	2.24	2.07	-0.17	0.952	accepted
t-2 to t+2	2.24	2.22	-0.02	0.841	accepted

t-2 to t+3	2.24	2.35	0.11	0.825	accepted
t-2 to t+4	2.24	2.53	0.29	0.778	accepted
t-2 to t+5	2.24	2.59	0.35	0.573	accepted
t-2 to t+6	2.24	2.77	0.53	0.717	accepted
t-2 to t+7	2.24	2.88	0.64	0.546	accepted
Panel B. Return on Asset Ratio (ROA)					
t-2 to t+1	0.08	0.05	-0.03	0.517	accepted
t-2 to t+2	0.08	0.07	-0.01	0.151	accepted
t-2 to t+3	0.08	0.2	0.12	0.083	accepted
t-2 to t+4	0.08	0.05	-0.03	0.064	accepted
t-2 to t+5	0.08	0.07	-0.01	0.156	accepted
t-2 to t+6	0.08	0.04	-0.04	0.09	accepted
t-2 to t+7	0.08	0.04	-0.04	0.21	accepted
Panel C. Debt to Equity Ratio (DER)					
t-2 to t+1	1.793	1.842	0.049	0.42	accepted
t-2 to t+2	1.793	1.898	0.105	0.231	accepted
t-2 to t+3	1.793	1.908	0.115	0.267	accepted
t-2 to t+4	1.793	1.663	-0.13	0.983	accepted
t-2 to t+5	1.793	1.647	-0.146	0.913	accepted
t-2 to t+6	1.793	1.585	-0.208	0.5	accepted
t-2 to t+7	1.793	1.522	-0.271	0.309	accepted
Panel D. Total Asset Turnover Ratio (TATO)					
t-2 to t+1	0.78	0.71	-0.07	0.089	accepted
t-2 to t+2	0.78	0.74	-0.04	0.184	accepted
t-2 to t+3	0.78	0.75	-0.03	0.129	accepted
t-2 to t+4	0.78	0.68	-0.1	0.131	accepted
t-2 to t+5	0.78	0.69	-0.09	0.147	accepted
t-2 to t+6	0.78	0.65	-0.13	0.136	accepted
t-2 to t+7	0.78	0.62	-0.16	0.051	accepted
Panel E. Price to Book Value Ratio (PBV)					
t-2 to t+1	1.82	2.723	0.903	0.021	rejected
t-2 to t+2	1.82	2.749	0.929	0.049	rejected
t-2 to t+3	1.82	2.706	0.886	0.002	rejected
t-2 to t+4	1.82	1.85	0.03	0.936	accepted
t-2 to t+5	1.82	1.81	-0.01	0.92	accepted
t-2 to t+6	1.82	1.65	-0.17	0.08	accepted
t-2 to t+7	1.82	1.74	-0.08	0.191	accepted

As can be seen in the table, the results of the Wilcoxon Paired Sample Test shows that the probability (ρ-value) of the CR, ROA, DER, and TATO variables for both in short-term and long-term observation period is bigger than the significance level (α) by 5%. It means that there is no significant difference in financial performance as indicated by the ratio of CR, ROA, DER, and TATO before and after the acquisition. The average value of the ratio actually does not increase or decrease significantly. This results are consistent with research by Abbas, et al., (2014) which showed there is no significantly difference on profiltability performance, liquidity, and solvency of Banking in Pakistan pre and post acquisition. The result also support the research by

Mahesh and Daddikar (2012) and Erdogan and Erdogan (2014) wich showed that merger and acquisition do not cause significantly difference on financial performance.

Ideally, the acquiring company will experience an increase in financial performance at least four years after the acquisition. However, this research gave the opposite result, where either using a short time horizon or a fairly long time horizon, the results of the research still did not show a significant increase. It possible because the company is less selective in determining the target company or the company is less efficient in managing the addition of assets, debt, or capital after the acquisition.

Meanwhile, for the firm value as proxied by the PBV ratio, the test results show significant results where the probability value (ρ-value) for the short term is less than 5%. However, for the long-term period, the results are not significant because the ρ-value is bigger than 5%. It means that in a short term of period, namely one to three years, the acquisition can made the value of the acquiring company increase. It indicates that investors or the market responded positively to the acquisition by several related companies. However, in a fairly long period of time, the acquisition did not cause the firm value significantly difference.

IV. Conclusion

Based on the results of the research above, it can be concluded that there are no significant differences in the company's financial performance both in pre and post acquisition. Meanwhile, there is a significant difference for the short-term measurement of firm value before and after the acquisition. Meanwhile, in the long term, the value of the company did not experience a significant difference. The company's goal in achieving synergies to improve financial performance and firm value after acquisition in the long term has not been achieved optimally. The company needs to conduct an evaluation regarding this matter. Companies need to reconsider whether the acquisition is the right strategy to achieve the goals that have been set. If acquisition is deemed the right strategy, the researchers suggest companies to be more selective in determining the target company and evaluate the company more carefully. In addition, companies must also be careful in managing assets, debts, and capital more efficiently. Therefore, the expected synergies after acquisition can be achieved optimally. The next research maybe can use more sample and indicator, it will help the research to get an optimally result.

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