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Performance of Mergers and Acquisitions in Go Public Company

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Abstract

This research aims to examine the effect of merger and acquisition firm performance on the Indonesia Stock Exchange. Firm performance is measured by financial ratios: current ratio, quick ratio, return on Investment, return on equity, debt to equity ratios, fixed assets turnover, operating profit margin, price book value, price earning ratio, and abnormal return around the announcement date of mergers and acquisitions. The sample of this research is determined by purposive sampling method, consisting of 27 Indonesian Stock Exchange excluded banking that did mergers and acquisitions from a period of 2015-2020. This research analysis used the Wilcoxon Signed Ranked Test for abnormal distribution data. The result of this research showed that financial ratios one year before and one year after merger and acquisition are not all significant, except for abnormal return variable, price book value, and price-earnings ratio indicated different significantly. This result indicated that mergers and acquisitions did not provide synergy for firms. Market reaction indicated that investors were influenced by the merger and acquisition of the firms, and they believed that the announcement would give them hope for better future performance.

Keywords: Mergers, Acquisitions, Firms Performance, Financial Ratios, Abnormal Returns

1. INTRODUCTION

Competition in the business world is increasingly felt in the era of free trade, especially in Indonesia as one of the developing countries in ASEAN, where the free market will come into effect in 2020, requiring companies to choose the right strategy to be able to maintain their existence and improve their performance. Go public companies must be competent both nationally and internationally in order to be able to exist by choosing the right strategy. One of the strategies taken by the company is to improve the company's performance and strengthen its financial or capital condition.

Expansion is one way to improve the company's financial performance to become a strong company. According to Husnan and Enni (2012), expansion is divided into two types, namely internal expansion, and external expansion. Internal expansion occurs when the existing divisions in the company grow normally through capital budgeting, for example, by adding factory capacity, adding new production units and divisions. At the same time, external expansion can be carried out by business mergers or business takeovers.

Business takeovers can be in the form of mergers, acquisitions, or consolidations. A merger is the merging of two or more companies into one force to strengthen the company's position, while acquisition is the takeover of part or all of the shares or assets of another company so that the takeover company has control rights over the target company (Moin, 2003). The reason a company merges with another company or buys another company is that mergers and acquisitions are faster and the process easier than if the company had to build its own business. This research is more focused on mergers or acquisitions as the same type of activity, and this is because the cases in Indonesia are both interpreted the same way. When an issuer announces an event, the market will react to the event. In order for investor decision-making to be rational, the relevant information is needed so that it can identify the company's performance. Dyckman and Morse (1989) suggest that the information used by investors can be in the form of accounting and non-accounting information. Accounting

information is information that describes the company's assets in the form of an annual Income Statement, Cash Flow Statement, and Statement of Changes in Capital. Non-accounting reports in the form of dividend reports, stock splits, rights issues, mergers, and acquisitions.

Seputro (2002) concludes that merger and acquisition activities do not have a synergistic effect on efficiency and profitability but increase the book value of the company. Saiful (2003) found that the target company received positive abnormal returns around the announcement of mergers and acquisitions. Rahmawati (2000) found that the acquisition increased investor welfare by 22.73%.

Several studies on mergers and acquisitions, including by Ravenschraft and Scherer (1989), found that the level of profitability decreased after the merger. Meek (1977) found a significant decrease in profitability after three and five years of mergers and acquisitions. Kristen et al. (1992) found a decrease in the ratio of liquidity, activity, and solvency and the Composite Stock Price Index of the acquiring company, but the leverage ratio increased. Payamta (2001) found no significant difference in the performance of the acquiring company. Wijanarko (2006) found an increase in performance in the ratio of ROE, OPM, and DER, while the three ratios of ROA, GPM, and NPM decreased. Nababan et al. (2013) found a significant negative abnormal return throughout the window period. Meanwhile, the long-term performance, as reflected in financial ratios, did not show significant results. Thus the possible reason for the merger and acquisition was independent of economic motivation. Vally (2013) found that there was no significant impact received by the shareholders of the acquiring company, both in terms of market efficiency and financial performance.

This study wants to re-confirm mergers and acquisitions as well as long-term performance on merger and acquisition announcements because several studies yield very different conclusions. The choice of this research topic is more due to assessing how mergers and acquisitions are in the company. This research is different from previous research because it includes research on market reactions to mergers and acquisitions and assessing post-merger and acquisition performance through financial statements.

2. LITERATURE REVIEW

1) *Merger* and Acquisition

IAI in PSAK No. 22 defines a business entity merger as the union of two or more separate companies into one economic entity because one company merges with another company or gains control or control over the assets and operations of another company. Company mergers can be in the form of mergers, acquisitions, or consolidations.

The development of business entities through "external business expansion" is divided into two ways, namely the merger of business entities and ownership of most of the shares of other companies. Mergers of business entities are in the form of mergers and consolidations, while ownership of most of the shares of other companies (acquisitions) are separate forms. Hunan (1998: 648) suggests that There are three basic procedures that companies can do to take over other companies. The three ways are (1) merger or consolidation, (2) stock acquisition, and (3) asset acquisition. The explanations of the three procedures, according to the author's understanding, are as follows:

1) Merger or consolidation. The term merger is often used to indicate the merging of two or more companies; then, only the name of one of the merging companies is left. While consolidation shows the merging of two or more companies, and the names of the merged companies are lost, then the new name of the combined company appears.
2) The stock acquisition is a way of taking over another company by buying the company's shares, either purchased in cash or replacing them with other securities (stocks or bonds).

Asset acquisition is a way of acquiring another company by buying the company's assets. This method will prevent the company from the possibility of having minority shareholders, which can occur in the acquisition of shares. Asset acquisition is carried out by transferring ownership rights to the purchased assets.

Mergercomes from the word "merger" (Latin), which means (1) to join together, to unite, to combine (2) to cause a loss of identity due to being absorbed or swallowed by something. A merger

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is the merging of two companies into one, where the company takes or buys all the assets and liabilities of the merged company so that the merging company owns at least 50% of the shares and the merged company stops operating, and its shareholders receive cash or shares in the new company (Myers and Marcus 1999, 598).

While acquisition comes from the words acquisition (Latin) and acquisition (English), the acquisition has the meaning of buying or getting something/object to be added to something/object that was previously owned. The definition of acquisition in terminology is the takeover of a company by buying shares or assets of the company, and the company purchased still exists (Myers & Marcus, 1999). Acquisitions are often thought of as investments in subsidiaries, i.e., majority control of the shares of another company, thus creating a parent-subsidiary relationship. Companies whose shares are owned by other companies will remain intact as a single business entity and as an independent business entities. So, the two or more companies are still standing as business entities.

In implementing the Merger and Acquisition strategy, the company expects a reward or return that the company can receive for implementing the strategy. The rewards expected by the company for implementing this strategy can be in the form of increasing company profits, increasing the company's stock price, increasing the number of investors who invest in the company, as well as increasing the recognition of the company by the public.

2) Financial performance

The big Indonesian Dictionary (2001) defines performance as something that is achieved, demonstrated achievement, and workability (equipment). Based on this understanding, financial performance is defined as management achievement. In this case, financial management in achieving company goals that generate profits and increase company value.

Mergers and acquisitions are events carried out by issuers to immediately obtain funding for company operations. Announcements of mergers and acquisitions will reach investors and react immediately. This reaction is reflected in the abnormal returns reacted by the market during the window period. Return is the level of profit enjoyed by investors on their investments. If the announcement of mergers and acquisitions is a positive signal, then the stock price will increase, and investors will get a positive abnormal return (Dyaksa 2006). Payamta (2004) and Wibowo and Pakereng (2001) found a decrease in abnormal returns. Investors consider mergers and acquisitions not to create synergies. Muktiyanto (2005), there is a significant difference in abnormal returns. Based on some of these studies,

H1: There is information contained in the announcement of mergers and acquisitions.

The analysis of financial performance in this study aims to assess the implementation of the company's strategy when deciding on mergers & acquisitions. One of the tools to assess financial performance is to use financial ratios, which is a general method used to measure financial performance. The merger and acquisition decision made by the acquiring company is expected to provide synergy for the company so that it can increase the working capital used to meet its short-term obligations. Some of the ratios that will be used in this study are:

a. The current ratio aims to measure the company's ability to meet other short-term obligations (current assets) (Ang, 1997). The results of Payamta and Setiawan (2004) show that the current ratio is not significantly different. Sijabat and Maksum (2009) found a significant difference in the current ratio. Based on some of these studies, the following hypotheses were formulated:
   H2: There is a difference in financial performance as measured by using the current ratio between before and after the merger and acquisition.
b. The quick ratio measures the company's ability to meet short-term obligations through current assets that are completely liquid (Ang, 1997). The results of Payamta and Setiawan (2004) found that the quick ratio was not significantly different. Sijabat and Maksum (2009) found a significant difference in the quick ratio. Based on some of these studies, the following hypotheses were formulated:
   H3: There is a difference in financial performance as measured by using the Quick ratio between before and after the merger and acquisition.

c. Total debt to total equity ratio. This ratio is used to measure the ability of own capital to be used as collateral for the overall debt (Ang, 1997). Widjanarko (2006) found that there was a significant increase in the total debt to total equity ratio, while Sijabat and Maksum (2009) found that there was no significant difference in the total debt to total equity ratio. Based on some of these studies, the following hypotheses were formulated:
H4: There is a difference in financial performance as measured by the total debt to total equity ratio between before and after the merger and acquisition.
d. Fixed Assets Turnover. This ratio is used to measure the efficiency level of utilization of fixed assets to support sales (Ang, 1997). Payamta and Setiawan (2004) found no decline in value after the announcement of mergers and acquisitions. Sijabat and Maksum (2009) found a significant difference in the fixed assets ratio. Based on some of these studies, the following hypotheses were formulated:
H5: There are differences in financial performance as measured by using fixed asset turnover between before and after mergers and acquisitions.
e. Return on Equity. Used to measure the company's rate of return or the company's effectiveness in generating profits by utilizing the company's equity (Ang, 1997). Payamta and Setiawan (2004) found a significant decrease in Return on Equity after the announcement of mergers and acquisitions. Sijabat and Maksum (2009) found that there was no significant difference in return on equity. Based on some of these studies, the following hypotheses were formulated:
H6: There are differences in financial performance as measured by using return on equity between before and after the merger and acquisition.
f. Return on Investment is the ratio of profit after tax to the amount of Investment (assets) (Samsul 2006). Payamta and Setiawan (2004) found a significant decrease in Return on Investment after the announcement of mergers and acquisitions. Sijabat and Maksum (2009) found that there was no significant difference in return on Investment. Based on some of these studies, the following hypotheses were formulated:
H7: There is a difference in financial performance as measured by using return on Investment between before and after the merger and acquisition.
g. Operating profit margin. This ratio measures the company's operational rate of return to the net sales value generated (Ang, 2007). Payamta and Setiawan (2004) found no significant change in operating profit margin after the announcement of mergers and acquisitions. Widjanarko (2006) found a significant increase in operating profit margin. Based on some of these studies, the following hypothesis is formulated.
H8: There are differences in financial performance measured by operating profit margin between before and after mergers and acquisitions.
h. Price book value. It is a ratio used to measure the performance of the stock market price against its book value. Book value shows the net assets owned by shareholders by owning one share; because net assets are equal to the total equity of shareholders, the book value per share is the total equity divided by the number of shares. Market value is the price of shares that occur on the stock market at a certain time determined by market participants based on supply and demand (Wirawati 2008). The higher the PBV value, the higher the firm value in the eyes of investors (Utama and Santosa 1998). Based on this research, the following hypothesis is formulated:
H9: There is a difference in financial performance as measured by using price book value between before and after the merger and acquisition.

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i. Price Earning Ratio. The desire of investors to analyze the health of a company through financial ratios such as PER is due to the desire of investors or potential investors for a decent return from a stock investment. This approach is used to assess stock prices. Companies with a high PER value are considered to have a higher price than their intrinsic value. Prasetyo (2013) and Rakhimsyah and Gunawan 2011 concluded that PER significantly affects stock returns. Based on some of these studies, the following hypotheses were formulated:
H10: There are differences in financial performance as measured using the price-earnings ratio between before and after mergers and acquisitions.

3. RESEARCH METHODS

This type of research is descriptive research. The form of this research is an event study that studies the market reaction to an event whose information is published as an announcement. The population in this study are companies listed on the Indonesia Stock Exchange from 2006-2011 that carried out mergers and acquisitions. The number of companies that carried out mergers and acquisitions was 39 companies. As internal validation, the following sample criteria are used:

1. Announced mergers and acquisitions between 2006-2010.
2. *No*-confounding effect means that the company does not experience other events that occur on or around the event under study (event period) that materially affects stock prices, such as corporate actions, earnings announcements, and so on.
3. No missing data, meaning that no data was lost during the study period.
4. Issue companies that have special regulations, namely banking and finance.

From these criteria, the total sample taken in this study was 27 companies. The steps for testing the hypothesis are as follows:

1. Data normality test
   A normality test is used to determine whether the data used is normally distributed or not. To test the normality of the data using the Kolmogorov-Smirnov test using a significance level of 5%
2. Testing of abnormal returns.
   Abnormal return testing is carried out in a five-day window period before and five days after the announcement of mergers and acquisitions.
3. Financial performance testing
   Tests on financial performance are carried out using financial ratio analysis.

a. Measuring current ratio
The current ratio aims to measure the company's ability to meet other short-term obligations (current assets) (Ang, 1997). Based on this, the formula for finding it is as follows:

$$\text{Current Ratio} = \frac{Current\ Assets}{Current\ Liabilities}$$

b. Measuring quick ratio
The quick ratio measures the company's ability to meet short-term obligations through current assets that are completely liquid (Ang, 1997). Based on this, the formula for finding it is as follows:

$$\text{Quick Ratio} = \frac{Treasury + Securities + Credit}{Current\ Liabilities}$$

c. Measuring debt to total equity

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Used to measure the level of leverage to total shareholder equity. Based on this, the formula for finding it is as follows:

$$\text{Debt To Total Equity} = \frac{Total\ Debt}{Shareholder\ Equity}$$

d. Measuring fixed asset turnover
Measuring the efficiency level of the company's fixed asset utilization to support sales activities. Based on this, the formula for finding it is as follows:

$$\text{Fixed Asset Turnover} = \frac{Net\ Sales}{Average\ Net\ Fixed\ Asset}$$

e. Measuring ROE
Measuring the company's rate of return or the company's effectiveness in generating profits by utilizing the company's equity. Based on this, the formula for finding it is as follows:

$$\text{ROE} = \frac{Net\ benefit}{common\ Stock\ Equity.}$$

f. Measuring ROI
Measures net profit after tax by the amount of Investment. Based on this, the formula for finding it is as follows:

$$\text{ROI} = \frac{Net\ Income}{Total\ Asset}$$

g. Measuring OPM
Measuring the rate of return from the company's operations against the net value of sales generated. Based on this, the formula for finding it is as follows:

$$\text{OPM} = \frac{Operating\ Income}{Net\ Sales}$$

h. Measuring PBV
Measuring company value. Based on this, the formula for finding it is as follows:

$$\text{PBV} = \frac{Sheet\ Market\ Price}{Book\ value\ Sheet}$$

i. Measuring PER
Measuring market value relative to book value or seeing how the market values a company's market performance.

$$\text{PER} = \frac{Closing\ Price}{EPS}$$

4. RESULTS AND DISCUSSION

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1) Testing Information Content

Abnormal returns in stocks can occur if there is a difference in the value of the market return, such as the realized return greater than the expected return and vice versa. Significant abnormal returns indicate investors' expectations of future performance after mergers and acquisitions. Signaling theory reveals that the market will react positively if the published information indicates a favorable signal (Jogiyanto, 2013). Quality and relevant information enable investors to assess performance prospects and expected returns on funds that have been or will be invested (Zaqi, 2006). This is because, in addition to getting a return, investors in their investment activities must also face risks related to the acquisition of these returns. The information that the market responds to will have an impact on the buying decisions made by investors. If many investors have a pessimistic view due to negative signals from the information received, then they will reduce the number of purchases that occur and will increase supply in the market so that prices will be pushed down. On the other hand, if an investor looks optimistic due to the positive signal he receives, he will increase the number of purchases that occur and will reduce the supply in the market so that prices will be pushed up (Sharpe, Alexander, and Bailey, 2005).

Before testing the hypothesis, what is needed is a normality test. The purpose of testing the normality of the data is to test whether the data is normally distributed or not. Normality test using 1 Sample Kolmogorov-Smirnov test. If the data is normally distributed, hypothesis testing uses parametric statistics, namely the sample t-test, while if the data is not normally distributed, the non-parametric Wilcoxon Signed Ranks Test is used with a significance level of 5%.

Table 1. Results of Abnormal Return Test Before and After

Period	Asymp. sig (2-tailed)	Information
Before After	0.014	Significant

Source: Secondary data processed, 2014

The significant difference in abnormal returns before and after the announcement of the merger and acquisition also shows that the company's goal to carry out mergers and acquisitions, namely the creation of synergies, can be achieved. The results of this study do not support the research conducted by Payamta and Setiawan (2004) and Yunita (2007).

2) Financial Performance Test

After testing for normality on abnormal returns, testing is again carried out on financial ratios. Normality test using the 1 Sample Kolmogorov Smirnov Test method. The purpose of this test is to determine whether the sample used in this study is normally distributed or not. The sample is normally distributed if the probability value is > the specified significance level ($\alpha = 0.05$). If the test results show that the sample/data is normally distributed, the difference test to be carried out is a parametric test, but if the sample/data is not normally distributed, the difference test to be performed is a test non-parametric. The results of normality testing of financial ratios are as follows.

Table 2. Financial Ratio Normality Test Results

Ratio	Before Merger and Acquisition	After Merger and Acquisition
Current ratio	0.242	0.12

Quick ratio	0.102	0.101
DER	0.268	0.081
FATO	0.285	0.303
ROE	0.132	0.067
ROI	0.443	0.104
OPM	0.106	0.129
PBV	0.129	0.838
PER	0.103	0.240

Source: Secondary data processed, 2014

Based on the test above, it can be seen that the sample is not normally distributed with a value exceeding the alpha of 5%. Then the financial ratio data can be concluded to be abnormally distributed so that the test uses the Wilcoxon Signed Ranked Test.

Table 3. Wilcoxon Signed Ranked Test

Ratio	**Amp. Sign**	**Conclusion**
CR seb-CR ses	0.657	H2Rejected
QR seb-QR ses	0.611	H3rejected
DERseb-DERses	0.665	H6rejected
FATOseb-FATOses	0.895	H7rejected
ROEseb-ROEses	0.163	H5 rejected
ROIseb-ROIses	0.414	H4 rejected
OPMseb-OPMses	0.684	H8rejected
PBVseb-PBVses	0.014	H9 received
PERSEB-PERses	0.013	H10received

Source: Secondary data processed, 2014

The Current Ratio and the Quick Ratio did not experience a significant difference between the period before and after the merger and acquisition; this indicates that there is no synergy created by the merger and acquisition. The non-significance of the Current Ratio and Quick Ratio indicates that after the merger and acquisition, the number of assets that have increased is fixed assets. The insignificant Quick Ratio is probably due to the increase in inventory not being matched by the increase in current assets, so most companies increase the Quick Ratio not too much. The results of this study support the research conducted by Payamta and Setiawan (2004).

Based on the test of the Debt to Total Equity Ratio, there is no significant difference between the periods before and after mergers and acquisitions. This study supports the research conducted by Widjanarko (2006), who suspects this is due to the implementation of the wrong acquisition or the selection of the target company, and the acquiring company does not have experience conducting mergers and acquisitions. Companies mostly use funds from outside/debt to finance company

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operations and/or transactions in mergers and acquisitions activities; funds used to finance mergers and acquisitions require a lot of costs so that there is no significant change in the company's leverage.

Based on the test of the Fixed Assets Turnover ratio, it is proven that there is no significant difference between the period before and after the merger and acquisition. This study supports the research conducted by Payamta and Setiawan (2004). This proves that the company's economic goals are not achieved in conducting mergers and acquisitions, and it is suspected that the economic goals to be achieved in conducting mergers and acquisitions may be the goal to save the company from bankruptcy. In addition, this result is possible because the average increase in sales is proportional to the increase in fixed asset turnover so that the fixed asset turnover ratio does not differ significantly, as well as an indication that the company is not effective/balanced in utilizing all available resources in its control in terms of fixed asset turnover. The absence of an increase in sales is also a major indication of the insignificant period before and after mergers and acquisitions. After the merger and acquisition, the company has not created synergies so that there is no increase in market share, and there is no increase in the production of companies that carry out mergers and acquisitions, so they are not able to encourage increased sales.

Return on Equitynot significantly different between before and after mergers and acquisitions. The results of this study are not in accordance with the theory proposed by Wild et al. (2005), which states that business combinations can improve company image, growth potential, company welfare, and increase company profits. Mergers and acquisitions will have a positive impact if the acquiring company has good capital and financial performance. In this study, the company's return on Investment did not differ significantly between the periods before and after mergers and acquisitions. This shows that the ability of its own capital to generate profits from its assets has decreased. This can happen, according to Payamta (2004). The merger and acquisition process requires no small cost and relatively large capital.

There is no significant difference in performance between before and after mergers and acquisitions on Return on Investment. The results of this study contradict Husnan and Enny (2012), who stated that the most underlying factor for companies to carry out mergers and acquisitions is the economic motive or merger and the acquisition is profitable for the company. Owner of the buying or acquiring company as well as the selling company or target company. This is based on the increase in the company's assets and finances. The results of this study indicate that the company's Return on Investment does not differ before and after the acquisition because the company is using and maximizing Investment is less effective, so the net profit generated is also less than optimal. This is also because the acquisition has only been carried out for a year, so the acquiring company has not shown an increase in Return on Investment.

Based on testing the ratio of the Operating Profit Margin, it is proven that there is no significant difference between the period before and after the merger and acquisition. The results of this study contradict Ross (2009), who concluded that a company could achieve greater operational efficiency in several different ways through mergers and acquisitions. Although the combined company will be much larger due to mergers and acquisitions, operating costs and capital costs per customer will be much lower. It can be concluded that after the merger and acquisition, the operating profit generated by each rupiah of sales will increase. The finding of an insignificant OPM generated by the company after mergers and acquisitions mean that there is an increase in operating costs or operating costs to generate profits.

Price Book Value and the Price Earning Ratio between before and after mergers and acquisitions are significant. This indicates that the market is reacting to mergers and acquisitions because investors believe that mergers and acquisitions are expected to have good synergy, as evidenced by the market response around the announcement date of mergers and acquisitions, although operationally, the performance of mergers and acquisitions cannot be assessed in more detail. Price Book Value is used by investors as a guide in assessing how far the company is able to create corporate value. The higher the Price Book Value, the higher the stock return. The higher the return will increase the company's income, thereby increasing the company's ability to distribute dividends.

Price Earning Ratio and a significant Price Book Value indicate that the shares of companies that carry out mergers and acquisitions reflect good performance so that investors have expectations

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of good performance after mergers and acquisitions. Price Earning Ratio is used by investors or potential investors due to the expectation of a decent return from a stock investment. The Price Earning Ratio is used by investors on the stock exchange as a basis for selling shares when the PER value is high. A high PER is considered to have a price that is too high compared to its intrinsic value.

5. CONCLUSIONS AND SUGGESTIONS

Based on the test results, there are significant differences in abnormal returns in the period before and after the announcement of mergers and acquisitions, so it can be said that the announcement has a strong influence on making market participants decide to invest in stocks in order to obtain high returns.

1. The fundamental ratios used by ROI, ROE, OPM, CR, QR, DER, FATO are not proven to be significant; the results of this study indicate that the economic goal of mergers and acquisitions, namely to obtain synergies, has not been achieved.
2. Market ratios, namely Price Book Value and Price Earning Ratio, have a significant effect. The results of this study indicate that the market always reacts to announcements of mergers and acquisitions in the hope that future performance will increase.

Applied implications

The results of this study are expected to provide input for investors and market players to hone their ability to be more sensitive in capturing opportunities when the time is right to invest without having to be influenced by issues related to fundamental performance and management decisions. For issuers, it is necessary to be careful in conducting mergers and acquisitions so that later they can provide benefits to the company, namely creating synergies and increasing the welfare of shareholders, both in the short and long term.

Limitations

This study still has limitations. Namely, the sample used is only twenty-seven companies and may still be inadequate for testing existing hypotheses. So the suggestion that can be used for future research is to add a variable to measure the market reaction so that the reaction from the announcement issued by the issuer is truly reflected, in addition to determining the sample of companies seeking the category of shares that are more actively traded in the capital market and it is also necessary to considering non-economic aspects and extending the observation period so that the synergy of companies conducting mergers and acquisitions can be observed.

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