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Do Merger and Acquisition Affect on Company's Financial Performance?

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Abstract

This research aims to discover the fact about differences in the company's financial performance before and after merger and acquisition are conducted. The design of this research is quantitative research. This research was conducted on the listing company in the Indonesian Stock Exchange 2010-2014. The data source was obtained from secondary data; the data obtained from the financial conditionments. The total final samples used were 24 companies by using purposive sampling method. The data used were analyzed using the Wilcoxon Signed Ranked Test. The results of this research indicate that debt to equity ratio (DER), current ratio (CR), price earnings ratio (PER), net profit margin (NPM), total asset turnover (TATO) had no significant difference on the company before and after merger and acquisition on the listing company in the Indonesian Stock Exchange (merger and acquisition of 2010-2014).

Keywords: financial performance, merger, acquisition, indonesian stock exchange

INTRODUCTION

The development of globalization requires company to maintain its existence and compete competitively. Due to the reason, a company must maintain its company performance well. Performance is an indicator of the goodness of management decisions in making a decision. Management may interact with internal and external environment through information. It is in line with the signal theory, which stresses the importance of information produced by the company to the investment decision of parties outside the company. Information is an important element for investors and businessmen because the information is essentially present good explanation, record or overview of the past, current and future condition of the company survival and how the market effect. Therefore, the company should be able to maintain its performance or to make the company grow better every year so that investor expectations are good towards the company image.

Company performance can be measured by financial ratios. Measurement of financial performance is used to see the progress of the strategy that has been taken by management. A company needs to take mature strategies, both internal and external strategies, for short and long term goals. Internal strategies can be conducted by product development, new product launches or by maintaining and improving the quality of existing products. In addition, external strategy can be conducted by having cooperation with third party or mergering business through acquisition or merger. Merger is a process of merging two or more companies into one company where an acquiring company will remain an identity while another company disappears with all its name and wealth; included in the company that remains exist. Meanwhile, acquisition is takeover process of two or more businesses that will result in the transfer of control of the company that has been acquired to the acquiring company. This process of company control will maintain the company that has been acquired.

In this study, the company performance will be examined by using debt to equity ratio (DER), current ratio (CR), price earnings ratio (PER), net profit margin(NPM), total asset turnover (TATO) which aims to see whether there is a difference in financial performance before and after the merger and acquisition. Current ratio (CR) is one of the most commonly used financial ratios in measuring financial performance. The level of current ratio can be determined by comparing the current assets by current liabilities (Syamsuddin, 2011:43). Current Ratio is used to measure the ability of corporations to meet short-term obligations, assuming that all of the current assets are converted into cash (Tampubolon, 2013: 41). Debt to equity ratio (DER) is a debt ratio used to measure company's ability to manage their own capital as collateral to all the company's debts. Prastowo (2011: 89) stated that DER is a balance proportion between the assets funded by creditors and funded by the owner of the company which is measured by the debt ratio, by comparing the total debt to total capital. Meanwhile, according to Darmadji & Fakhruddin (2011: 158), they conditiond that this ratio measures the extent to which the debt can be covered

by own capital, this ratio is calculated by dividing the total debt with equity. DER can be calculated by comparing total debt to total capital. Net profit margin (NPM) is the ability of the company to earn a net profit at the level of certain sales (Hanafi, 2009: 83). This ratio illustrates the ability of a company to make a profit through all available capabilities and resources such as sales, cash, capital, number of employees, number of branches and so on (Harahap, 2011: 302). Calculating the NPM can be done by comparing earnings with sales.

The asset turnover ratio shows how far a company's ability to produce sales based on fixed assets owned by the company. The higher the turnover rate of fixed assets, the more effective the company manages its assets (Hanafi, 2014: 40). TATO can be calculated by sales formula divided by total assets. Price Earning Ratio (PER) is measuring how investors assess the prospects for company growth in the future, and is reflected in the share price investors are willing to pay for every penny the company gets (Sudana, 2015: 26). According to (Brigham & Houston, 2011: 110) this ratio can be measured at the price per share divided by profit per share. Hyphotesis ini this research are

H_1 : There's a significant difference between CR before and after, merger and Acquisition

H_2 : There's a significant difference between DER before and after, merger and Acquisition

H_3 : There's a significant difference between NPM before and after, merger and Acquisition

H_4 : There's a significant difference between PER before and after, merger and Acquisition

H_5 : There's a significant difference between TATO before and after, merger and Acquisition

LITERATURE REVIEW

Financial Performance

Measurement of financial performance is a formal effort to evaluate the efficiency and effectiveness of the company in generating a certain profit and cash position (Hery, 2015: 25). In this study, the measurement of financial performance will be calculated using financial ratios. Kasmir (2010) draws the following conclusions financial ratio is an activity comparing the figures in the financial statements by dividing one number with another number. Comparison can be made between one component with components in one financial statement or between components that exist between financial statements. Then the comparing numbers can be numbers in one period or some periods. Financial ratios are an important tool of financial analysis. Because it can make it easier to analyze a financial report from the company. According to Prastowo and Julianty (2008) ratio is an analytical tool that can provide a way out and

describe the symptoms that appear from a situation. The ratios used to measure financial performance are as follows.

a. Current Ratio, the ratio used to measure a company's ability to meet its short-term liabilities (Hery, 2015: 152). According to Kasmir (2010: 111) the current ratio (CR) of the company's ability to pay short-term liabilities that promptly temporarily at the time billed as a whole.

b. Debt to equity ratio (DER) is the ratio of debt used to measure the ability of companies in managing their own capital to be used as collateral for all corporate debt. Prastowo (2011: 89) states DER represents a balance of proportion between assets funded by creditors and those funded by company owners measured by debt ratio, by comparing total debt to total capital.

c. Net Profit Margin (NPM) is a ratio that measures a company's ability to generate net income at certain sales levels (Hanafi, 2009: 83). This ratio illustrates the ability of a company to make a profit through all available capabilities and resources such as sales, cash, capital, number of employees, number of branches and so on (Harahap, 2011: 302). If the gross profit margin does not change much over the next few years but its net profit margin declines over the same time period, then it is because of overly high sales costs or higher tax rates.

d. Total Asset Turnover (TATO) is a ratio that measure the effectiveness and efficiency of the company in managing the assets owned by the company (Sudana, 2015: 24). This study measures asset management ratios using TATO. According to sudana (2015: 25) this ratio measure the effectiveness of the use of all activities in generating sales.

e. Price Earning Ratio, Sudana (2015: 26) that the Price Earning Ratio (PER) measures how investors assess the growth prospects of the company in the future, and is reflected in the stock price that investors are willing to pay for each Rupiah profit earned by the firm.

Merger

According to Hanafi (2010: 662) merger is one company absorbed by another company. Acquisers retain their names, credentials, and take over the merged assets and obligations of the company. Merger is a legal act done by one or more companies to merge with another company that already exists and then the company that joins itself to be dissolved (Government Regulation of the Republic of Indonesia No. 27 of 1999). Mergers occur when two organizations of approximately the same size unite to build one type of business. According to Horne & Wachowicz (2013: 364) merger is a merger of two or more companies with only one company operating as a legal entity. In most merger cases, firms that have larger sizes will be retained and made an identity, while smaller companies will melt and stop the activity or dissolve as a legal entity.

Acquisition

According to Moin (2003: 8) the acquisition is a form of acquisition of the company by the acquirer so that will result in the transfer of control over the expropriated company. Usually the acquirer company is a larger company than the company being targeted acquisition. Meanwhile, according to Statement of Accounting Standard (PSAK) no. 22 defines the acquisition from an accounting perspective as a business combination whereby one of the companies, the acquirer gains control of the net asset and the operations of the acquired company, by granting certain assets, recognizing an obligation or issuing shares. Acquisition is a common way to run a strategy. Acquisitions occur when a large organization buys (acquires) a smaller company, or vice versa. When a merger or acquisition is not desired by both parties, it can be called a takeover. Conversely, if desired by both parties, the acquisition is termed a merged merger (David 2009).

METHODS

The type of research is descriptive comparative research; using data in the form of numbers and using the tools of statistics. The approach used is quantitative. This research uses five variables as a measure of financial performance. Model design of this research can be seen in Figure 1 below.
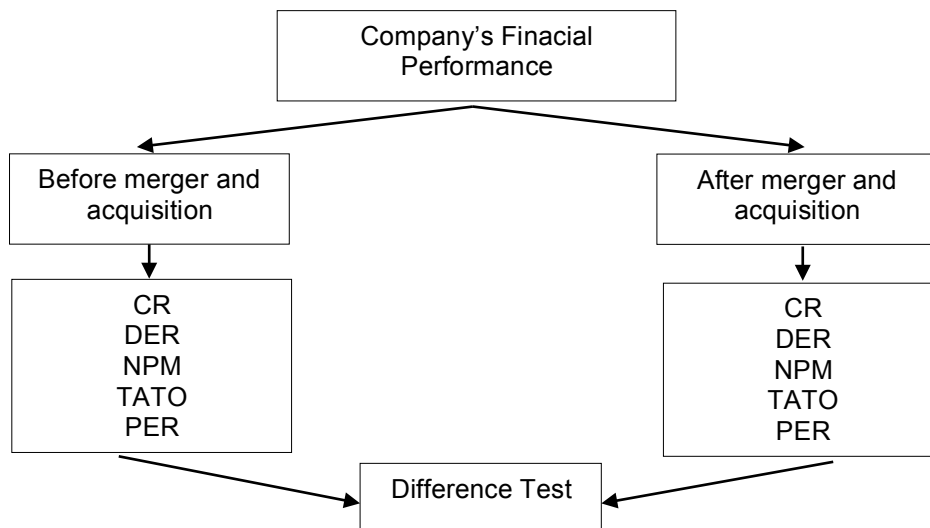

Figure 1. Study Design

Population used in this study are as many as 167 public companies listed on the Indonesia Stock Exchange (IDX) and KPPU, the companies conducted merged and acquired acts in 2010-2014. The data of KPPU in 2013 shows that at least seven notifications of merger/ acquisition with three notifications involving foreign companies, in 2011 there were 45 notes of merger / acquisition with 18 of them involving foreign companies, in 2012 there were 36 merger notifications, in 2013 there were 69 merger notifications and by 2014 there are

55 merger notifications.The sampling method is conducted by using purposive sampling with the following criteria:

a) Companies conducted merger and listing in 2010-2014
b) Companies conducted acquisitions and listings in 2010-2014.
c) Companies reported their financial statement for two years in a row
d) Not include in banking sector

The final total sample used in this research amounted to 24 companies. This research used the secondary data obtained from the website of IDX (www.idx.co.id), the Financial Services Authority (www.ojk.go.id), www.kppu.go.id, www.bi.go.id, online news websites and the websites of the companies that is being sampled in this research. Data analysis techniques used in this research is descriptive data analysis which is a description of the condition of each variable. After completion of calculating the variables of research, it is followed by calculating the average to see the condition of variables in each sample company. Then it is proceed by calculating the average of the variable, and then the normality test is conducted to determine the test equipment to be used. If the result of data test shows normal distribution, then the test equipment used is paired sample T test, but if the test result shows the upnormal distribution, then the test equipment used is wilcoxon signed ranked test.

FINDINGS

Conditions of DER, CR, NPM, PER, and TATO before and after merger and acquisition. DER average of 24 companies that became the focus of the research experienced an increase between before and after the merger and acquisition, before the merger and acquisition conducted, DER average was 95.00 which then rose to 141.84 after the merger and acquisition. In contrast to the average of DER, CR average of 24 companies showed a decrease from an initial value of 1, 90 to 1.51 after merger and acquisition. After the merger and acquisition, there was a decrease in NPM average of 2.56 in the prior merger and acquisition to 0.8. The average value of PER also showed a decrease after the merger and acquisition from 89.19 to 88.76, TATO value also decreased after merger and acquisition from 79.34 to 74.75.

The change of DER, CR, NPM, PER, and TATO values in this research was then tested whether the change in value in either increase or decrease was significant or not, to know the significance of value changes of DER, CR, NPM, PER, and TATO,difference test was conducted, by conducting normality test first, if the data is found to spread normally then the difference test is conducted by using T 2 paired samples, but if the research data is not known to spread normally, Wilcoxon test will be used.

Normality test is a test to see whether the variables studied follow the normal distribution or not. Basically, the Shapiro-Wilk test is a test to determine whether the studied variables did not follow any distribution or special nonparametric on small-scale data as much as $n \leq 30$. The hypothesa that apply to this normality test are:

H_0: Data are Spreading Following Normal Distribution

H_1: Data are Spreading Not Following Normal Distribution

The expected hypothesis is to accept the hypothesis H_0 or to reject hypothesis H_1, it is the variable that is observed following the normal distribution. H_0 hypothesis is accepted if the significance value for each variable is greater than the alpha of 5%.

From these results, it can be obtained significance value of the variable PER and TATO before merger and acquisition > 0.05. It showed that the normality assumption on each variable was not met because there are no values before and after to the five variables that have a significance value greater than 5% alpha, so it was decided that the difference test used in this study is the Wilcoxon test.

Wilcoxon Test

Wilcoxon test was conducted by looking at the value of Z-statistics of calculation result, if the value of Z-count> Z-table at α = 0.05 (5%), then H_0 is rejected and H_1 is accepted, and vice versa. Wilcoxon test was also conducted by looking at the p-value (significance) of the research, if the p-value < α = 0.05 (5%), it is decided to reject H_0 and accept H_1, and vice versa. If the p-value> α = 0.05 (5%) it is decided to accept H_0 and reject H_1. The results of hypothesis testing on the Wilcoxon test will be explained in Table 1 below:

Table 1. Results of Wilcoxon Test

Variables	Average before	Average after	Z-count	P-value	Description
DER	95.00	141.84	-1.943	0.052	Accept H_0
CR	1.90	1.51	-1.129	0.259	Accept H_0
NPM	2.56	0.80	-1.440	0.150	Accept H_0
PER	89.19	88.76	-1.277	0.201	Accept H_0
TATO	79.34	74.75	-1.314	0.189	Accept H_0

Table 1 above shows the results of Wilcoxon test on DER, CR, NPM, PER, and TATO variables and then it obtains the following results:

a. CR variable has a Z-count value of -1.129, the value |Z-count| < Z-table (1.964) and the p-value equal to 0.259> α = 0.05 (5%) that is stated to accept the H_0 and H_1 is rejected, which means that there is no significant difference in CR average beforeconducting merger and acquisition with CR average after conducting merger and acquisition. Although there is a tendency of CR decrease after conducting merger and acquisition but this decrease is not significant. However, based on the results of the test above, it shows the decrease after merger and acquisition, although it does not significantly affect the performance of the company, it can be said that the economic purpose of the merger and acquisition decision is to obtain

financial enhancement; it has not been achieved until one year after the merger and acquisition . One of the factors that lead to differences in the performance of the current ratio before and after merger and acquisition is due to the number of years of observations made in this research is only 1 year before and 1 year after the merger and acquisition; it causes financial performance has not showed a significant change.

b. DER variable has a Z-count value of -1.934, the value |Z-count| < Z-table (1.964) and the p-value equal to 0.052> α = 0.05 (5%) that is stated to accept the H_0 and H_2 is rejected, which means that there is no significant difference in DER average beforeconducting merger and acquisition with DER average after conducting merger and acquisition. Although there is a tendency of DER increase after conducting merger and acquisition but this increase is not significant. In addition, the cause of no significant difference in DER before and after mergerand acquisition is due to non-economic reasons such as the organization is not able to survive the dramatic changes they face, like culture as opposed to the bidder company with the target company. The cultural change is not easy because it is estimated hurdles include the expertise, staff, relationships, roles, and structures that have been rooted in collaboration reinforces traditional cultural patterns.

c. The NPM variable has a Z-count value of -1.440, the value |Z-count| < Z-table (1.964) and the p-value equal to 0.150> α = 0.05 (5%) that is stated to accept the H_0 and H_3 is rejected, which means that there is no significant difference in NPM average before conducting merger and acquisition with NPM average after conducting merger and acquisition. Although there is a tendency of NPM decrease after conducting merger and acquisition but this decrease is not significant. This ratio shows how efficient the company is in managing its sales in achieving profit. The higher the value of NPM the more efficiently the company gets the profit from the sale. It also shows that companies are able to keep the costs low. On the contrary, the decreasing NPM shows the inability of the company to make a profit on sales and manage the costs of its operational activities; therefore causing investors are not interested to invest in the company. In addition, the change of company culture after the merger and acquisition can be considered to affect individual performance. Organizational culture is the personality of the company and if two companies conduct merger and acquisition, then there is a merger between two organizations that have different personalities. Organizational culture is the values that become the guidance of human resources in carrying out its obligations and behavior in the organization. The logical consequence of organizational culture is the perspective view of the members of the organization, as well as a benchmark in every action. Insidethe organizational value contains what is considered good and bad, and right and wrong. For the company's post-merger and acquisition, benchmarks used by both membersof organizations with different backgrounds are also not the same.Situations may result in conflicts and protracted conflicts, if it is not explicitly handled properly.

d. The PER variable has a Z-count value of -1.222, the value |Z-count| < Z-table (1.964) and the p-value equal to 0.201> α = 0, 05 (5%) that is stated to

accept the H_0 and H_4 is rejected, which means that there is no significant difference in PER average beforeconducting merger and acquisition with PER average after conducting merger and acquisition. Although there is a tendency of PER decrease after conducting merger and acquisition but this decrease is not significant. It is thought to be due to the absence of a fixed number to set good PER number, so that each company has different targets to set a PER value that is considered good. While this study uses the average to see the difference in performance before and after merger and acquisition, so it is suspected that the results of this study showed no significant difference to the value of PER before and after merger and acquisition. In addition, other causes of no significant difference before and after merger and acquisition allegedly because the number of years of observations made in this researchis only 1 year before and 1 year after the merger and acquisition; it causes financial performance has not showed significant changes.

e. The TATO variable has a Z-count value of -1.314, the value |Z-arithmetic| < Z-table (1.964) and thep-value equal to 0.189> α = 0.05 (5%) that is stated to accept the H_0 and H_5 is rejected, which means that there is no significant difference in TATO average beforeconducting merger and acquisition with TATO average after conducting merger and acquisition. Although there is a tendency of TATO decrease after conducting merger and acquisition but this decrease is not significant. It is thought to be due to companies that conduct merger and acquisition have not been able to maximize assets owned. In addition, the company is still preparing the goods and there are no many sales happen. This may indicate that the company is not able to play the company's assets to the maximum, so that there are many unused funds in the company. Companies that are less able to play the assets will result in benefits to be obtained later. Companies that conduct merger and acquisition are still unable to achieve economic objectives because if it is seen from the short-term, the company still had to adjust the level of sales management after conducting merger and acquisition. In addition to a change in the culture of the company after the merger of acquisition funds, it caused influence on the human resources that will be employed. Human resources included in non-economic aspects, which should be noticed by the company. In such situations, organizations are faced with the option of identifying and selecting organizational culture items that are appropriate to the new company (if after the merger a new company is formed). So that it does not become an obstacle in achieving the target company.

CONCLUSION

Based on the results of the research that has been conducted, it can be concluded as follows: (a) the condition of current ratio, net profit margin, price earnings ratio, and total asset turnover after the merger and acquisition to the company listed on the Indonesia Stock Exchange in 2010-2014, experienced decrease, only debt to equity ratio experienced increase, (b) the results of

difference test, on financial performance before and after merger and acquisition in 2010-2014, showed that there was no significant difference to current ratio (CR), debt to equity ratio (DER), net profit margin (NPM), price earnings ratio (PER), and total asset turnover (TATO) between before and after merger and acquisition.

Based on the results of research that has been conducted, then suggestions that can be addressed by the next researcher are as follows: (a) investors should be more careful in dealing with merger and acquisition activities conducted by the company, because merger and acquisition do not always bring a good impact, (b) the company is expected should take into account to the company's financial performance targetsbefore conducting merger and acquisition activity, so that after merger and acquisition, itwill not create impacts that will harm the company in the future.

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