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Comparing The Financial Performance of Indonesian Acquired Firms Listed in IDX

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Introduction

Competition among companies in the free market is intensifying due to changes in the business environment. This prompts companies to continually enhance their business strategies to remain competitive. Mergers and acquisitions (M&A) are one of the primary methods that company owners focus on to develop their businesses. Rao and Kumar, (2013) define mergers and acquisitions are activities that involve the acquisition, restructuring, or control of a company, thereby altering its ownership structure. According to Alfani, Rustandar and Mulyanto, (2013), companies employ M&A policies to increase market share and add value to the company by striving for better efficiency. Mergers and acquisitions assist companies in boosting their revenue, thereby reducing the risk of losses and improving cash flow (Anderibom and Obute, 2015).

Normalita, (2018) explains that the Latin origin of the term "merger" means the combination of two or more companies, with only one company surviving as a legal entity, while others cease their activities or dissolve. (Tarigan, et al., 2017) acknowledge the global trend towards the era of mergers and acquisitions, as many global companies shift from merely establishing new businesses to engaging in mergers or acquisitions. (Sitanggang, 2013) explains that acquisition is a means of transferring ownership of a company by the acquiring party, wherein the identity of the acquired company is maintained, but control shifts to the acquiring company.. Various forms of mergers and acquisitions include horizontal, vertical, corporate, market extension, and product extension.

Although the forms and objectives of mergers and acquisitions may vary between companies, Mardianto, Christian and Edi, (2018) suggest that M&A activities are generally aimed at synergy or added value, not only in the short term but also in the long term, while simultaneously increasing economies of scale and financial strength. Synergy occurs when the value of the company after an acquisition is higher than the calculated values of each individual company before the acquisition. There are two types of synergy: operational synergy, which focuses on revenue and cost efficiency, and financial synergy, which relates to the possibility of obtaining lower capital costs through the merger of two or more companies (Wiyono and Kusuma, 2017).

The prevalence of mergers and acquisitions as an efficient strategy is also highlighted by the Komisi Pengawas Persaingan Usaha (KPPU) in its annual reports. Significant increases in merger and acquisition notifications were recorded during the period from 2015 to 2021. Additionally, the growth of mergers and acquisitions in Indonesia aligns with information from the Institute of Mergers and Acquisitions and Alliances (IMMA), indicating an increasing trend in the phenomenon of mergers and acquisitions. To assess the success of mergers and acquisitions, a relevant indicator is the financial performance of companies, reflecting their conditions post- merger and acquisition (Reddy, Nangia and Agrawal, 2013). Financial performance represents the results or achievements of company management in effectively managing company assets over a specific period (Rudianto, 2013).

The popularity of mergers and acquisitions does not necessarily guarantee the success of companies in improving their financial performance. Research by Anwar and Debby, (2016) indicates no significant differences in the financial performance of public manufacturing companies measured by financial ratios during the two years before and after mergers and acquisitions. Among the six financial ratios used in this study, only earnings per share showed a significant difference between the two periods before and after mergers and acquisitions, suggesting that the economic objectives of mergers and acquisitions were not achieved. This finding is consistent with the research of Dewi and Widjaja, (2020), which found no significant differences in financial ratios before and after mergers and acquisitions for four out of seven variables, implying that synergy after mergers and acquisitions has not been achieved.

On the contrary, Mardianto, Christian, and Edi (2018) conducted a study using 284 samples of merged and acquired companies listed on the Indonesia Stock Exchange during the period of 2008-2012. The research analyzed data for three years before and after mergers and acquisitions, measuring variables such as gross profit margin (GPM), operating profit margin (OPM), net profit margin (NPM), return on net worth (RONW), return on capital employed (ROCE), debt to equity ratio (DER), and earning to asset ratio (EAR). The results of the study indicated a significant impact of mergers and acquisitions in Indonesia, leading to a decline in company performance. Mamahit, Pangemanan and Tulung, (2019) also supported this finding by demonstrating that the average values of profitability ratios for companies before mergers and acquisitions were greater than those for the period after mergers and acquisitions in Indonesia. Profitability variables measured included return on assets, return on equity, operating profit margin, gross profit margin, and net profit margin.

Various research studies have yielded diverse results. Therefore, this study serves as an extension of previous research with the aim of determining whether there are differences in the financial performance of companies one year before and one year after mergers and acquisitions among companies listed on the Indonesia

tock Exchange. The study assesses financial performance through Operating Performance, Profitability, and Shareholder's Return ratios. The chosen ratios by the researcher were based on their ability to indicate the degree to which mergers and acquisitions influence the financial performance of acquiring companies. Additionally, with the existing results from previous research, the researcher has preliminary answers regarding the impact of mergers and acquisitions on the financial performance of acquiring companies over a one-year period, as follows.

H1: There is a significant difference in operating performance of acquiring firms in the post-merger and acquisition period compared to the pre-merger and acquisition period

H2: There is a significant difference in acquiring firms' financial performance in the post-merger and acquisition period compared to the pre-merger and acquisition period.

H3: There is a significant difference in shareholder wealth of acquiring firms in the post-merger and acquisition period compared to the pre-merger and acquisition period.

RESEARCH METHODS

In line with the research objectives, the type of research used is comparative descriptive research. This type of research is chosen because it can analyze a hypothesis about the presence or absence of differences in several financial performance variables of companies. The financial performance variables measured include operational performance using Operating Profit Margin (OPM), profitability variables measured with Return On Assets (ROA), Return On Equity (ROE), and Net Profit Margin (NPM), and shareholder return variables using indicators such as Earning Per Share (EPS), Book Value Per Share, and Dividend Yield.

The research objects selected are companies listed on the Indonesia Stock Exchange with the sample consisting of acquiring companies that underwent mergers and acquisitions from 2015 to 2021. The sampling method used for this research is purposive sampling. Purposive sampling is a sampling technique with specific considerations (Sugiyono, 2019). The reason for using this sampling method is to obtain a representative sample that helps achieve the research objectives. The criteria used in sample selection are public companies that underwent mergers and acquisitions during the period 2015-2021 and published financial reports for 1 year before and 1 year after the merger and acquisition. Based on these criteria, the number of analyzed samples is 85 acquiring companies during the research period from 2015 to 2021, for 1 year before and after the merger and acquisition.

Data related to the needs of this research are obtained from secondary data. The data obtained from the second party (Sugiyono, 2019) are available at the Refinitiv Data Center of Petra Christian University. The method of data analysis involves descriptive statistical analysis measuring the ratio scale. Hypothesis testing in this research is conducted using the Wilcoxon signed-rank test. Gupta, (2022) defines The Wilcoxon signed-rank test is a nonparametric statistical hypothesis test used to assess whether two related samples, paired samples, or repeated measurements within a single population, characterized by distinct ranks, exhibit a significant difference—essentially, it serves as a paired difference test. The significance level used in this research is 1 percent and 5 percent. Data processing and analysis are conducted using statistical software SPSS 29.

RESULT

Table 1. Result

Ratios	Post Mean Ratio	Pre-Mean Ratio	Mean Change	t-value	Significance
OPM	20.97%	23.34%	-2.37%	2.27	0.023**
ROA	3.98%	5.41%	-1.42%	3.67	0.000***
ROE	8.58%	-6.75%	15.33%	3.27	0.001***
NPM	12.33%	16.20%	-3.87%	3.17	0.002***
EPS	120.81	118.17	2.64	0.56	0.573
BV per Share	1500.65	1271.20	229.45	5.40	0.000***
Dividend Yield	1.61%	1.34%	0.27%	1.33	0.185

*** significant level 0,001 , ** significant level 0,05

Source: compiled by the authors

According to the findings presented in Table 1, a noteworthy contrast is observed in the Operating Performance, signified by the operating profit margin, and Profitability, represented by return on assets, return on equity, and net profit margin, between the year preceding and the year succeeding the merger and acquisition. Conversely, there exists a significant distinction in Shareholder's return, specifically concerning the Book Value per share indicator, between the year before and the year after the merger and acquisition.

The analysis of operating performance, gauged by the operating profit margin, reveals a substantial decline in the operational efficiency of the acquiring company post-merger and acquisition. The SPSS Version 29 computations for the year before and after the merger and acquisition process resulted in a significant level of 0.023. Consequently, the inference is that H1 is accepted, and H0 is rejected, indicating a discernible difference in financial performance based on the operating performance variable between the year preceding and the year following the merger and acquisition.

Regarding profitability metrics, encompassing Return on Assets, Return on Equity, and Net Profit Margin, the results portray a statistically significant variance in the financial performance of the acquiring entity. The SPSS Version 29 analyses for Return on Assets yielded a significant level of 0.0002, denoting statistical significance. Similarly, Return on Equity displayed a significant t-value of 0.0011. Additionally, Net Profit Margin exhibited a difference between the year before and the year after the merger and acquisition, with a t-value of 0.002. Therefore, it is concluded that H2 is accepted, and H0 is rejected, signifying divergent financial performance between the year before and the year after the merger and acquisition based on the profitability variable.

Shareholder's return ratios, measured by Earnings per Share, Book Value per Share, and Dividend Yield, show a significant difference between one year before and one year after the merger and acquisition, particularly in the indicator Book Value Per Share. This is supported by a statistically significant t-value of 0.000. Based on these research findings, it can be concluded that H3 is accepted while H0 is rejected, meaning that the test results show a difference in financial performance between one year before and one year after the merger and acquisition based on the shareholder's return variable with the indicator Book Value Per Share.

DISCUSSION

This research aims to analyze the differences in acquiring companies that undergo mergers and acquisitions over a period of 1 year before and 1 year after the merger and acquisition. The study is tested using the Wilcoxon signed-rank test on 85 acquiring companies from 2015 to 2021. The research results indicate significant differences in Operating Performance, as indicated by the operating profit margin, and Profitability, as indicated by return on assets, return on equity, and net profit margin, between 1 year before and 1 year after the merger and acquisition. Additionally, there is a significant difference in Shareholder's return, particularly in the indicator Book Value per share, between 1 year before and 1 year after the merger and acquisition.

Regarding Operating Performance, the average operating profit margin ratio decreased from 23.34% to 20.97% in the period after the merger and acquisition. With a 5% significance level, this ratio has a statistically significant value, indicating a decline in profit margin as a result of consolidation in the post-merger and acquisition period. This suggests that the company has not efficiently utilized its assets for operational activities, and management performance has decreased compared to before the merger and acquisition. This decline is consistent with previous research by Mamahit, Pangemanan, & Tulung (2019), and Mardianto, Christian, and Edi (2018).

In terms of profitability variables, the Return on Assets ratio experienced a decrease of 1.42%, with the Return on Assets value decreasing from 5.41% before the merger and acquisition to 3.98% after the merger and acquisition. This indicates that the company's performance in managing assets to generate profits did not go well in the year after the merger and acquisition. Similar differences are observed in the Return on Equity ratio, which increased by 15.33%. Before the merger and acquisition, the average Return on Equity was -6.75%, and after the merger and acquisition, it increased to 8.58%. Additionally, the average Net Profit Margin before the merger and acquisition was 16.20%, which then decreased to 12.33% after the merger and acquisition, indicating a 3.87% decline. This aligns with research by Novaliza and Djajanti (2013), Fitriasari (2016), Gozali and Panggabean (2019).

In terms of shareholder's return variables measured by Earnings Per Share, there is a difference between 1 year before and 1 year after the merger and acquisition, particularly in the indicator Book Value Per Share. The average change in Book Value Per Share increased from 1271.2 one year before the merger and acquisition to 1500.65 one year after the merger and acquisition, with a change in Book Value Per Share of 229.45. This indicates that the equity available to common shareholders increased in acquiring companies after 1 year of the merger and acquisition.

From the above results, all three variables show significant differences one year before and one year after the merger and acquisition. However, the operating profit margin indicator shows a decrease in the average change after 1 year of the merger and acquisition. This decrease is also observed in the return on assets and net profit margin indicators. This suggests that companies undergoing mergers and acquisitions require more than 1 year to see improvements in the average change. Furthermore, with the decline in the average change, it indicates that the companies' motive to achieve synergy has not been found in the observation 1 year after the merger and acquisition.

These results suggest that the synergy achieved after mergers and acquisitions has not been realized because companies need to integrate first over the long term.

Successful integration is the most crucial step to absorb the value of the acquired company and create synergy or new value after the acquisition (Chang-

Howe, 2019). This integration includes operational integration, cultural integration, human resource capability integration, and technological integration.

In conclusion, the goal of mergers and acquisitions to create synergy for improved financial performance has not been implemented in the companies in this study due to the need for adjustments after mergers and acquisitions, which take a considerable amount of time. Synergy requires a long time due to adjustments in cultural integration in the company after mergers and acquisitions, and this study has a limited time frame of 1 year before and 1 year after mergers and acquisitions, so the research results cannot be used as a definitive reference. This is indicated by the significance in the Operating Performance and Profitability variables, while there is no significant difference in Shareholder's return.

CONCLUSION

The strength of mergers and acquisitions as one of the strategies that allows companies involved to dominate market share and increase resources through the target company in a relatively short time to create synergy is acknowledged. The increasing intensity of business competition is believed to boost the popularity of mergers and acquisitions as a strategy to enhance the financial performance of companies. However, contrary to the primary goal of mergers and acquisitions to improve company efficiency, several previous research results do not align with this objective.

Through this research, the goal is to examine the impact of mergers and acquisitions on the financial performance of acquiring companies listed on the Indonesia Stock Exchange. This analysis is conducted by testing the ratios of Operating Performance, Profitability, and Shareholder's Return for 85 acquiring companies that underwent mergers and acquisitions during the period of 2015-2021. Using the Wilcoxon signed-rank test, the results for the Operating Performance ratio measured by Operating Profit Margin and the Profitability ratio measured by Return On Assets, Return On Equity, and Net Profit Margin show significant differences between 1 year before and 1 year after mergers and acquisitions. Meanwhile, the Shareholder's Return ratio shows significant values for the BV Per Share indicator and no significant differences for the Earning Per Share and Dividend Yield indicators between the 1 year before and 1 year after mergers and acquisitions. From these results, it can be concluded that the companies' objective to create synergy after mergers and acquisitions has not been achieved in this study. This is evidenced by a significant decline in some indicators 1 year after mergers and acquisitions, such as OPM, ROA, and NPM, which aligns with the research of Gupta (2022).

Based on the results and conclusions outlined, for companies planning mergers and acquisitions, careful consideration of the selection of the target company through thorough research is crucial. As a suggestion for future researchers, it is recommended to extend the observation period and increase the number of samples in the study, both before and after mergers and acquisitions, to process diverse data. Additionally, researchers can improve research outcomes by adding research variables and measuring company financial performance with noneconomic factors, as this study focuses on economic factors. On the investor side, those looking to invest in stocks are advised to scrutinize companies with a history of mergers and acquisitions more thoroughly, considering both financial and non-financial performance aspects, to ensure the success of their investments.

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