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Original Research Article

The impact of acquisition on acquirer companies' financial performance

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[1*]**Muhammad Syukur**
and
[2]**Fauziah A. Fitri**

[1]Department of Logistics and Supply Chain Management, School of Management, Mae FahLuang University, Chiang Rai 57000, Thailand
[2]Department of Accounting, Faculty of Economics, Syiah Kuala University, Darussalam, Banda Aceh 23111, Indonesia

*Corresponding Author: msyukurmail@gmail.com

Acquisition is a strategy to improve performance of a company. However, several previous researches show that acquisition cannot improve the performance. The purpose of this study is to examine the impact of the acquisition on acquirer companies' financial performance. The population of this study is 21 Indonesian companies that were involved in acquisition during 2011-2013. The data are financial ratios, collected from the Indonesian Capital Market Directory provided by the Indonesian Stock Exchange website. To analyze the performance, five ratios are used in this research. Paired sample t-test is applied to the ratios with the help of statistical software called PASW (Predictive Analytics Software). The findings confirm that liquidity, leverage, efficiency, profitability, and market value decrease insignificantly a year after the acquisition. Therefore, it is concluded that there is no significant difference in financial performance between pre and post-acquisition.

Key words: Acquirer companies, acquisition, financial performance, financial ratios

INTRODUCTION

Companies operate daily business activities. The activities could be administrating, manufacturing, packaging, and even selling and marketing activities. At the end of the financial year, stakeholders would be interested in their financial performance for the year. They can know the financial performance by analyzing the income statement and balance sheet. Therefore, obtaining a good financial performance is always being the companies' goal. Besides, companies also want to obtain other goals, such as to save more cost, enter a new market, get a global position, or adapt towards changing technologies. Acquisition is believed as the best strategy to achieve those goals (Nickels et al., 2010). It is because, for example, to enter a new market, a company does not need to build a new business there, but it just needs to acquire a company in that market. It is easier and more economical doing that by acquisition.

Acquisition is when a company (or more) are acquired by another company from share selling. The acquired company will be a subsidiary of the acquirer because its share is owned by the acquirer for more than 50% (Beams et al., 2009). It is because the ownership of a company (corporation) is evidenced by share ownership (Kimmel et al., 2011). With short words, acquisition happens when a company owns more than 50% shares of other companies, with specific motives.

There are some motives behind an acquisition because acquisition is one of the company's strategies that can give some advantages to the company. Wild et al. (2005) said that acquisition can improve the company image, growth potential, company welfare, and profit. Acquisition also can become a solution to prevent liquidity risk (Panagiotis and Spyridon, 2011). It is also a strategy to get the assets that belong to other companies, to be healthier and more efficient, in achieving synergy (Putri and Atik, 2013). Synergy is which the total value from the combined firms is greater than the sum of values of each firm. Simply, acquisition is done to give good impact to the performance of companies.

Before conducting acquisition, acquirer companies should ensure that the financial performance of both the acquirer and acquired companies are good so that a good acquisition result can be achieved. After acquisition is done, their financial statements are summed up into consolidated financial statement which is shown in the financial report of the acquirer companies (Baker et al., 2010). This financial statement is the one that will be evaluated to see the acquirer companies' financial performance after acquisition. Having better performance is what the stakeholders hope.

Theoretically, acquisition can improve performance of companies, by creating synergy. However, some acquisition events could not make the financial performance better. Some acquisition events gave bad impact of the financial performance, comparing before and after acquisition. Based on their financial reports, we can find that Surya Intrindo Makmur did acquisition in 2001 and got worse leverage, by looking at the debt-equity ratio, which increased from 0.60 in 2000 to 0.96 in 2002; Sarasa Nugraha did acquisition in 2002 and got worse efficiency, by looking at the asset turnover that decreased from 1.76 in 2001 to 1.59 in 2003; and Unilever did acquisition in 2004 and got worse liquidity, by looking at the quick ratio, which decreased from 1.36 in 2003 to 0.84 in 2005. Therefore, the objective of this research is to test if there is a significant difference on acquirer companies' financial performance between pre and post acquisition.

Literature review

Several researchers had done some researches related to the changes in the financial performance before and after acquisition. Some of the results show that acquisition improves the performance, but some does not. The previous researchers found these following findings: Panagiotis and Spyridon (2011) found that the leverage and profitability decreased insignificantly and the liquidity decreased significantly after acquisition. Only the stock return increased significantly. Putri and Atik (2013) found that no findings were significant. They found, after acquisition, the liquidity, leverage, efficiency, and profitability decreased, but the stock return increased. Erdogan and Erdogan (2014) found there was a significant increment for the leverage, efficiency, and profitability, whereas the liquidity and stock return insignificantly decreased. Abbas et al. (2014) found that the leverage and the liquidity were not affected, the profitability decreased, and the efficiency insignificantly changed. Ahmed and Ahmed (2014) found that the profitability, liquidity, and capital position insignificantly improved, but the efficiency deteriorated insignificantly. In this research, financial performance like liquidity, leverage, efficiency, profitability and market value, are evaluated.

According to Jumingan (2006), there are eight analysis tools in evaluating financial performance: (1)analysis of financial statements comparison, (2)analysis of trend, (3)analysis of common size, (4)analysis of sourcing and using working capital, (5)source and use of cash analysis, (6)financial ratio analysis, (7)analysis of changes in gross profit, and (8)break even analysis. However, financial ratio analysis is more common and is the starting point of all analysis (Kieso et al., 2011).

Samad et al. (2010) categorized financial ratios into five groups based on the purposes: liquidity, leverage, efficiency, profitability, and market value. Each group has some ratios. However, one ratio per each group was picked for this study.

Liquidity

Liquidity ratios show a company's ability to meet its short-term financial obligations, that is, whether the company has the resources to pay its creditors when payments are due (Samad et al., 2010). In this paper, CR (current ratio) was picked to see the liquidity performance.

$$CR = \frac{current\ assets}{\text{current liabilities}}$$

Leverage

Leverage is a level of debt as a source of fund (Fred, 1990). In this study, DER (debt- equity ratio) was picked to see the leverage performance.

$$\text{DER} = \frac{total\ debt}{total\ equity}$$

Efficiency

Efficiency ratios, also called asset management ratios, measure how effective the firm in managing the assets in generating sales (Samad et al., 2010). In this study, ATO (asset turn over) was picked to see the efficiency performance.

$$\text{ATO} = \frac{net\ sales}{\text{total assets}}$$

Profitability

Profitability indicates how well the company is using its resources to earn a return on the funds invested by various groups. In this study, NPM (net profit margin) was picked to see the profitability performance.

$$\text{NPM} = \frac{net\ profit}{\text{net sales}}$$

Market Value

Market value ratios give the management an indication of what investors thinks of the company's past performance and future prospects. If the liquidity, efficiency, leverage, and profitability ratios are good, then the market value ratios will be high and the firm's stock price will increase(Samad et al., 2010). In this study, EPS (Earnings

Table 1. The samples: acquirer companies

No.	Acquirer companies 2011	No.	Acquirer companies 2012	No.	Acquirer companies 2013
1	Bank Rakyat Indonesia (Persero) Tbk	7	Kalbe FarmaTbk	14	Agung Podomoro Land Tbk
2	Indo-Rama Synthethics Tbk	8	Tunas Ridean Tbk	15	Harum Energy Tbk
3	JasaMarga (Persero) Tbk	9	Provident Agro Tbk	16	SalimIvomas Pratama Tbk
4	Berau Coal Energy Tbk	10	Mitrabahtera Segara Sejati Tbk	17	Astra Otoparts Tbk
5	PT ElangMahkota Teknologi Tbk	11	Solusi Tunas Pratama Tbk	18	Tiphone Mobile Indonesia Tbk
6	PT KawasanIndustriJababekaTbk	12	AlamSutera Realty Tbk	19	Indospring Tbk
		13	Cowell Development Tbk	20	Sugih Energy Tbk
				21	Bayan Resources Tbk

Table 2. Summary of Paired Sample T-Test Result

	Pre-Acquisition	Post-Acquisition	P-Value
Liquidity			
Current Ratio	1.8990	1.7690	0.608
Leverage			
Debt-Equity Ratio	1.5162	1.6871	0.498
Efficiency			
Asset Turnover	0.9667	0.7491	0.170
Profitability			
Net Profit Margin	24.5562	16.4005	0.440
Market Value			
Earnings Per Share	178.7257	87.7533	0.061

per Share) was picked to see the market value performance.

$$EPS = \frac{net\ profit}{number\ of\ issued\ shares}$$

METHODOLOGY

Financial Performance

Financial performance is the evaluation of the efficiency and effectiveness of a company in a certain period of time. Financial performance is also defined as the ability of company in managing and controlling its resources (IAI, 2007). Performance measuring is a must for a company to know its position among the competitors.

These are the analysis steps in analyzing this study:

1.Identifying the acquisition year. The acquisition year in this research was 2011, 2012, and2013.

2.Setting up the years that were compared. This research compared a year before and a year after the acquisition year. So, the financial ratios compared were between 2010 until 2014.

3.Calculating the CR, DER, ATO, NPM, and EPS.

4.Comparing the ratios, then taking conclusions using Wilcoxon signed rank test and paired samplet-test.

The name list of the acquirer companies was obtained from BadanPengawasPersaingan Usaha Republik Indonesia (BPPU-RI) or the Indonesian Business Competition Supervisory Body. There are 21 acquirer companies as the sample which were listed in IDX and did acquisition in 2011-2013(Table 1). The financial information was extracted from the financial report which was downloaded from the official website of IDX.

RESULT AND DISCUSSION

Hypotheses of this research were tested by using paired samples t-test to examine the significance of difference for each ratio. Table 2 shows the summary of the test results.

Table 2 shows the mean of each ratio and the p-value. There is an insignificant difference between pre and post-acquisition to all performances at 5% significance level. All the hypotheses are rejected because the p-values are greater than 0.05. The current ratio's p- value is higher than 0.05. It means that the first hypothesis is rejected. It says that there is an insignificant difference of liquidity between pre and post-acquisition. This result is in accordance with the research result of Erdogan and Erdogan (2014) and Putri and Atik (2013). However, Ahmed and Ahmed (2014) found that liquidity insignificantly increased.

The debt-equity ratio's p-value is higher than 0.05. It means that the second hypothesis is rejected. It shows there is an insignificant difference on acquirer companies' leverage between pre and post-acquisition. However, Sinha and Kaushik (2010) found that there is a significant difference in leverage after acquisition. The asset turnover's p-value is higher than 0.05. It means that the third hypothesis is rejected. It shows that there is an insignificant difference on acquirer companies' efficiency between pre and post-acquisition. This result is in accordance with the finding of Ahmed and Ahmed (2014). However, Erdogan and Erdogan (2014) found an increase in efficiency after the acquisition.

The NPM's p-value is higher than 0.05. It means that the fourth hypothesis is rejected. It shows that there is an insignificant difference on acquirer companies' profitability between pre and post-acquisition. Abbas et al. (2013) also found that there was an insignificant decrease in profitability. However, Singh (2013) found that the profitability increased significantly after acquisition. The EPS' p-value is higher than 0.05. It means that the fifth hypothesis is rejected. It shows that there is an insignificant difference on acquirer companies' market value between pre and post-acquisition. This result is in accordance with the research result of Ahmed and Ahmed (2014). However, Sinha and Kaushik (2010) found that the EPS increased significantly after acquisition.

Conclusions

From the statistical test using paired sample t-test, we can take conclusion that all the hypotheses are rejected. It means that there is an insignificant difference on acquirer companies' liquidity, leverage, efficiency, profitability, and market value between pre and post-acquisition.

The limitations of this research are: (1) this research only focused on acquirer companies;

(2) this research uses five ratios which are common in Indonesia; and (3) the research examines the impact of acquisition only on the financial performance. Therefore, the suggestions of future research are: (1) Future researchers may take acquired companies as the sample to show the impact of acquisition on acquired companies. Acquired companies could get an impact after acquisition, which is under the management of the acquirer companies; (2) Future researchers may use other ratios or tools which are seldom used in the country, such as sales growth, return on sales, average collection period, change in total assets, etc.; and (3) Future researchers may examine the impact of acquisition on other performances, such as employee attendance, the speed of manager to take a decision, cleanliness of working environment, etc.

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