

FINANCIAL PERFORMANCE COMPARISON ANALYSIS BEFORE AND AFTER THE ACQUISITION OF COMPANIES LISTED ON THE IDX FOR THE PERIOD 2016 -2021

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ABSTRACT

Keywords:
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This study aims to analyze the comparison of the company's financial performance three years before and three years after making acquisitions listed on the Indonesia Stock Exchange for the 2017 period. The company's financial performance is measured using financial ratios, namely, the liquidity ratio (Current Ratio), the solvency ratio (Debt to Asset Ratio), activity ratio (Total Asset Turn over), Profitability ratio (Return On Assets, Return On Equity, Net Profit Market), and market ratio (Earning Per Share). The research method used is quantitative. Meanwhile, the population of this study included public companies listed on the IDX that carried out acquisitions and companies that announced acquisition activities in the 2017 period. The sample for this study was purposive sampling. The data analysis method used in answering the hypothesis is using descriptive statistics, normality test, and different tests (Sample Paired T Test and Wilcoxon Sign Rank test). The results of hypothesis testing using the Wilcoxon Sign Rank test, namely the Current Ratio, there is a difference between before and after the acquisition and the other six ratios, namely Total Asset Turn over, Return On Assets, Return On Equity, Net Profit Market, and Earning Per Share, there is no difference between before and after the acquisition. From the results that have been stated, it can be concluded that for companies that will carry out acquisition activities, they must see how the financial performance of the company to be acquired so that there is no loss for those who will acquire the company.

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1. INTRODUCTION

Indonesia is currently entering the era of globalization and free trade, an era in which established companies compete fiercely to expand their corporate networks. As a result of this competition, many companies went bankrupt or unable to survive in the current era, in order to avoid this the company can carry out a business strategy. A strategy that can help companies create competitive advantages that come from scale and economic reach, or market power, and access to the unique strengths possessed by the target company [1] This advantage strategy can occur when carrying out acquisitions.

Acquisition is a takeover of ownership of assets or shares of another company, usually both the acquirer and the acquired respectively continue to operate as usual. The next impact for the acquiring company is to have full rights to the acquired company, both from the management, financial, operational, marketing and other strategic policies (Kamaluddin et al., 2015). This acquisition strategy began to appear since the 1970s due to the economic crisis that began to hit Indonesia. However, this acquisition activity began to grow rapidly in 1980 which began with the banking industry making acquisitions. This acquisition was carried out to gain effective influence on the acquiring and acquired companies. The expected influence in making acquisitions for the acquiring company is the added value of the synergy resulting from the takeover or merger of companies and several other benefits. Meanwhile, the effect of the acquisition on the acquired company is that the acquiring company can send experts to improve the performance of the acquired company. But the most important thing before making an acquisition is to look at the financial statements issued by each company to analyze their financial performance[2].

Financial Performance Analysis is a process of critically assessing financial performance, which includes reviewing financial data, calculating, measuring, interpreting, and providing solutions to company financial problems in a certain period [3]. There are several kinds of financial performance analysis, but what will be used in this study is financial ratio analysis. Analysis of financial ratios, namely analysis of liquidity ratios, solvency, activity, profitability ratios, and market ratios. Several studies comparing financial performance before and after the acquisition have been carried out by several researchers where the final results given are either different or the same. Safira & Sulasmiyati, (2019) uses 11 financial ratios, namely liquidity ratios (Current Ratio, Quick Ratio, and cash ratio), activity ratios (Total Asset Turn Over, Fixed Asset Turn Over), solvency ratios (Debt Asset Ratio and Debt to Equity Ratio), profitability ratios (Return On Assets, Return On Equity and Net Profit Margin) and market ratios (Earning Per Share) . The results obtained are that there is no difference in financial performance before and after the acquisition. Waskito & Hidayat, (2020) uses five financial ratios, namely liquidity (Current Ratio), profitability ratio (Return On Equity), Solvability ratio (Debt to Equity Ratio), activity ratio (Total Asset Turn Over) and market ratio (Earning Per Share). The results of this study are the Current Ratio and Debt to Equity Ratio indicating that there is no difference between before and after the acquisition. While the other three ratios show the difference between before and after the acquisition. [4] uses 3 financial ratios, namely Liquidity (Current Ratio), profitability ratio (Return On Assets), and Solvability Ratio (Debt to Equity Ratio). The result of this study is that the three ratios used show differences in financial performance before and after the acquisition. Of the three studies in on two of them shows that there is no difference either before or after the acquisition, while one study is the opposite.[5]-[7]

Based on the three studies above, it makes researchers interested in conducting research with several ratios to be used and different research locations. The ratio to be used is the liquidity ratio using the Current Ratio, the solvency ratio using the Debt to Asset Ratio (DAR) ratio, the activity ratio using the Turn Asset Turn Over (TATO) ratio, the profitability ratio using Return On Assets (ROA), Return On Equity (ROE)), and Net Profit Margin (NPM), and market ratios using Earning Per Share (EPS). This study uses companies that made acquisitions in 2017. Based on the background that has been described, the researcher is interested in conducting a thesis research with the title "Analysis of Financial Performance Before and After Acquisition of Companies Listed on the Indonesia Stock Exchange for the 2016-2021 Period".[8]

2. LITERATURE REVIEW

2.1. Acquisition

Acquisition is an attempt to take over ownership of a company by another company which is carried out by buying part or all of the company's shares, where the company being taken over still has its own legal entity and with the intention of increasing the company's growth (Kamaluddin et al., 2015). PP No. 27 of 1998 on mergers, consolidations and takeovers in a limited liability company defines an acquisition as a legal act carried out by a legal entity or individual to take over either all or most of the company's shares which can result in a change in control of the company. Meanwhile, the Commission for the Supervision of Business Competition, Commission Regulation No. 1 of 2009 concerning pre-notification of amalgamations, takeover defines an acquisition (or so-called takeover) as a legal act carried out by a business actor to acquire or obtain either all or part of the shares or assets of a company/business entity, which results in a transfer of control over the said company/business entity. PSAK No. 2 defines an acquisition as a business combination in which one of the companies is the acquirer resulting in a transfer of control over the company being taken over. Usually the acquiring company has a larger company size compared to the acquired company. which resulted in the transfer of control over the Company/Business Entity. PSAK No. 2 defines an acquisition as a business combination in which one of the companies is the acquirer resulting in a transfer of control over the company being taken over. Usually the acquiring company has a larger company size compared to the acquired company. which resulted in the transfer of control over the Company/Business Entity. PSAK No. 2 defines an acquisition as a business combination in which one of the companies is the acquirer resulting in a transfer of control over the company being taken over. Usually the acquiring company has a larger company size compared to the acquired company.[9]

2.2. Acquisition Types

Several types of acquisitions according to (Kamaluddin et al., 2015)[10], namely, Horizontal Acquisition

1) Vertical Acquisition

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- 2) Conglomerate Acquisition

2.3. Acquisition Technique

Acquisition techniques are divided into two parts according to (Kamaluddin et al., 2015), namely:

- 1) Acquisition of Shares
- 2) Asset Acquisition

2.4. Acquisition Factors

Several acquisition factors according to (Kamaluddin et al., 2015):

- 1) Synergy Value
- 2) Working capital
- 3) Financial
- 4) Sale
- 5) Professional Management
- 6) Effective Competition
- 7) Economies of Scale
- 8) Competition
- 9) Shareholder Position
- 10) New Industry Risks
- 11) Debt Capacity

2.5. Acquisition Criteria

Before making an acquisition, it is necessary to consider and calculate perfectly so that there are no mistakes in making decisions. According to Kamaluddin et al., 2015, [11] there are several criteria for target companies that are considered potential for acquisition:

- 1) The target company has a dominant position in its industry.
- 2) Companies which do not produce optimal returns on the assets owned.
- 3) Target companies that have high profit business prospects.
- 4) Target companies that fall within the industry criteria as the acquirer wants.

2.6. Acquisition Procedure

The acquisition process is divided into three steps according to [12], namely:

- 1) Acquisition planning
- 2) Acquisition Process
- 3) After Acquisition

2.7. Pros And Cons Of Acquisition

Several reasons why parties agree to acquisitions and mergers according to Knoke in (Kamaluddin et al., 2015)[13]:

- a. As an effort to find new potential markets.
- b. As an effort to increase sales and profits.
- c. As a way to enter new businesses and markets by means of acquisitions.
- d. There is a firm target profitability process.
- e. One way to increase market share and increase competitive advantage.
- f. Steps to reduce competence are viewed from the perspective of the acquirer.
- g. The capacity reduction strategy is not yet optimal.
- h. Expand their portfolio.
- i. Alternatives increase economies of scale.
- j. Efforts in the development of new products, technologies and resources.
- k. Increasing efficiency as a synergistic effect after acquisitions and mergers.
- l. Achieve business legalization, follow industry trends.

There are several reasons for those who do not agree with the acquisition according to [14]:

- 1) If the acquired company is in good condition, then goodwill
- 2) will be more expensive.
- 3) The cultural differences between the two companies have resulted in the two companies needing time to adjust to differences, both in terms of work ethic, values, and commitment, so that a

- process of cultural integration is necessary.
- 4) For the public, acquisitions can reduce competition and reduce the choices available to consumers, especially when oligopoly market conditions arise. Behind the bad situation for consumers due to the reduction in competition, there is a positive impact for the acquiring company.
 - 5) For employees, there is fear of downsizing as a result of acquisitions to streamline management and new owners.
 - 6) In some cases the occurrence of acquisitions, can reduce motivation of employees whose company was acquired.

2.8. Financial performance

Financial performance is an analysis carried out to see how far a company has carried out by using the rules of implementing a company's finances properly and correctly. Financial performance is one of the tools to measure financial condition using financial ratio analysis in a certain period. It is very important to know which resources are used optimally in the face of changing environmental condition [15].

There are four types of financial ratios that will be used, including:

1) Liquidity ratio

The liquidity ratio is the ratio used to measure the extent to which a company's ability to pay off short-term obligations that are due soon. If the company is able to pay off its short-term debt, it means that the company is said to be liquid. And if the company is unable to pay off its short-term debt, it means that the company is said to be illiquid (Hery, 2018).

a. Current Ratio

The current ratio is the ratio used to measure a company's ability to meet its short-term obligations that are due soon by using the total current assets available. The higher the current ratio, the more an entity is considered to have the ability to meet liabilities.

b. solability ratio

The Solvency Ratio is the ratio used to measure a company's ability to fulfill all of its obligations, both short term and long term (Hery, 2018).

c. Debt to asset ratio (Debt to Asset Ratio)

DAR is the ratio used to measure how much the company's assets financed by the company's debt affect asset financing.

2) Activity Ratio

Ratio activity is the ratio used to measure the company's effectiveness in using its assets, including to measure the level of efficiency of the company in utilizing existing resources (Hery, 2018).

a. Total asset turnover (Total Asset Turnover)

TATO is the ratio used to measure the effectiveness of total assets in generating sales that will result from every rupiah contained in total assets. The formula used in the ratio of total assets turn over:

3) Profitability Ratio

The profitability ratio is a ratio that describes the company's ability to generate profits through all the capabilities and resources of the company, namely those derived from sales activities, use of assets, and use of capital (Hery, 2018).

Results of return on assets (Return On Assets)

ROA is the ratio used as a benchmark for how much profit will be generated from each fund in total assets. The formula used in finding the return on assets:

b. Return On Equity

ROE is the ratio used as a benchmark for how much net profit you want to generate from each fund in total equity. The formula used in finding the return on equity:

c. Net Profit Margins(NPM)

NPM is the ratio used as a benchmark for how much percentage of net profit on sales is generated. The formula used in finding NPM:

4) Market Ratio

The market ratio is the ratio used to measure the value of a company's shares.

d. *Earning Per Share*(EPS)

EPS is a ratio used as a benchmark for company management in providing an overview of profits for common stockholders. The formula used in finding EPS:

2.9. hypothesis

The hypothesis is a temporary answer to the formulation of a predetermined problem that needs to be tested for validity through statistical tests. The research hypothesis is formulated based on the formulation of the problem, research objectives, literature review, conceptual framework, which has been established [5].

Based on the background, problem formulation, research objectives, theoretical review and conceptual framework described above, the authors formulate the following hypothesis:

Ho : there is no difference in financial performance before and after the acquisition of companies listed on the Indonesian stock exchange there is a difference in the 2015-2020 period.

H1: there are differences in financial performance before and after the acquisition of companies listed on the Indonesian stock exchange there are differences in the 2016-2021 period[16].

3. METHOD

The research design used in this research is quantitative research. The place for collecting research data is the Indonesian Stock Exchange (IDX) through an accessible official website, namely www.idx.co.id. The population used in this study were companies that made acquisitions in 2017 and the results obtained were three companies that met the research requirements. The sampling method that will be used in this study is the purposive sampling method. The analysis technique used is descriptive statistics, normality test, and hypothesis testing. The hypothesis test used in this test is the Wilcoxon Signed Rank Test.

4. RESULT AND DISCUSSION

The test results for Comparison of Financial Performance Before and After the Acquisition of Companies Listed on the IDX can be explained in detail as follows.

4.1. Liquidity Ratio

Ratio The liquidity used is the Current Ratio, where this ratio has a higher value before making an acquisition than after making an acquisition. A high CR value does not mean that the company has good CR, this could be the result of inadequate cash and inventory management. And a low Current Ratio value indicates that the company has little capital to pay off short-term debt that will mature. CR experienced The decline after the acquisition indicates that the company is starting to decline in paying short-term debt.

Based on the Wilcoxon Sign Rank Test on the value of the Current Ratio financial performance before and after the acquisition shows the Asymp value. Sign is smaller than the predetermined significant level value. This means that there are differences in financial performance before and after the acquisition. Researchers dispute the statement made by [17] where the current ratio shows no difference before and after the acquisition.

4.2. Solvency Ratio

In the Solvability ratio, namely the Debt to Asset Ratio, descriptive statistics show that the average DAR before and after the acquisition is smaller before than after the acquisition. A large Debt to Asset Ratio allows a company to be unable to pay off debts or liabilities. Based on the Wilcoxon Sign Rank Test on the value of the financial performance of the Debt to Asset Ratio before and after the acquisition shows the Asymp value. Sign is greater than the predetermined significant level. This means that there is no difference in financial performance before and after the acquisition. This research is in line with research conducted by [18] where there is no difference in the DAR ratio between before and after the acquisition.

4.3. Activity Ratio

In the Activity Ratio, namely Turn Asset Turn Over, descriptive statistics show that the average value of Turn Asset Turn Over before and after the acquisition is greater before than after the acquisition. A small Turn Asset Turn Over value indicates that the company needs to increase sales. Based on the Wilcoxon Sign Rank Test on the value of Turn Asset Turn Over financial performance before and after the acquisition shows the Asymp value. Sign is greater than the predetermined significant level. This means that there is no difference in financial performance before and after the acquisition. This research is not in line with research by [19] where the TATO ratio shows that there is a difference between before and after the acquisition.

4.4. Profitability Ratio

In the profitability ratios, namely Return On Assets, Return On Equity, and Net Profit Margin descriptive statistics show that the average value is smaller before than after the acquisition. High ROA, ROE and NPM values indicate the level of total net profit generated from each existing fund in assets, equity and sales. In the Wilcoxon Sign Rank Test on [19] the value of the financial performance of ROA, ROE, and NPM shows the Asymp value. Sign is greater than the predetermined significant level. This means that there is no difference in financial performance before and after the acquisition. This research is in line with research conducted by [14] where there is no difference between the ratios of the three ratios before and after the acquisition.

4.5. Market Ratio

In the market ratio, namely Earning Per Share, descriptive statistics show that the average value of Earning Per Share before and after the acquisition is greater before than after the acquisition. Based on the Wilcoxon Sign Rank Test on the value of the Earning Per Share financial performance before and after the acquisition shows the value of Asymp. Sign more greater than the predetermined significant level. This means that there is no difference in financial performance before and after the acquisition. This research is in line with research conducted by [20] where there is no difference in the EPS ratio between before and after the acquisition.

Based on the results of research that has been carried out using the SPSS application, the result is that there is no significant difference in financial performance before and after the acquisition. this is in line with research conducted [17] which states that there is no significant difference in financial performance before and after the acquisition. As a result of the existence of several ratios where there is no difference in financial performance before and after the acquisition, indicating that this is not in accordance with one of the company acquisition factor theories according to [20], namely the existence of a synergy value between the acquirer and the acquired company in terms of financial, marketing, sales, and so on.

Companies that wish to make acquisitions during the current pandemic must think again about doing so. Because, during the pandemic, Indonesia's economy is currently declining and companies are on average doing cash and fund efficiency to survive in the midst of this pandemic.

5. CONCLUSION

There is no difference in financial performance before and after the acquisition based on liquidity ratios, solvency ratios, activity ratios, profitability ratios and market ratios.

The financial performance of the acquiring company is measured using seven financial ratios, namely the Current ratio, Debt to Asset ratio, Total Assets turn Over, return on assets, return on equity, net profit margin and earnings per share showing no difference in results both before and after the acquisition in 2017 in observing the financial reports three years before and three years after.

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