The Impact of Mergers and Acquisitions on the Financial Ratios of Companies Registered with the KPPU

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Abstract
This study aims to determine the impact of mergers and acquisitions on company financial performance as proxied by liquidity ratios, profitability ratios and efficiency ratios. Data is obtained from financial reports by comparing financial performance ratios before and after mergers and acquisitions. Hypothesis testing uses the Wilcoxon rank test and paired sample t-test. The test results show that there is a significant difference in the liquidity ratio. Meanwhile, profitability ratios and efficiency ratios did not find any significant changes between before and after the merger and acquisition. This study has a limited number of years used to compare financial performance. Future research is expected to use a larger sample of years.

Keywords
merger; acquisition; liquidity; profitability; efficiency

Intoduction

Mergers and acquisitions have become one of the popular trends for business expansion in developed countries and are increasing in developing countries. The Ernst & Young Capital Confidence survey shows that globally, corporate confidence in mergers and acquisitions is increasing (Ernst & Young, 2017). There are several reasons why companies carry out mergers and acquisitions. One of the motivations is to combine the resources or markets owned by each company. A famous merger event can be seen in the Bank Mandiri case which was caused by the impact of the monetary crisis. Many small banks at that time decided to merge in order to survive the monetary crisis. Another reason for carrying out mergers and acquisitions could also be due to changing government regulations, as happened in the merger and acquisition event carried out by Bank Lippo.

Previous studies have shown that mergers and acquisitions can improve a company's financial performance, although some do not support it. Merger and acquisition efforts carried out by the banking sector have a positive and significant impact on the profitability ratio which aims to save financial distress, although only temporarily (Akinbuli & Kelilume, 2013). Kumshe, Kwazhi, & Imam (2015) found that the earning per share of the banking sector that carried out mergers and acquisitions increased.

The increase in stock prices is one indicator of a company's good financial performance. It can be concluded that mergers and acquisitions have a positive impact on the development of a company's financial performance. The study is supported by research conducted by Singh & Gupta (2015) and Sabri, Ezman, & Zainal (2015). Yadav, Rani, & Jain (2015) conducted a similar study that also supported these results. The study shows that overall, mergers and acquisitions can increase profitability, efficiency, leverage, and liquidity ratios.

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However, research conducted in Europe concluded that mergers and acquisitions in banking sector companies cannot be guaranteed to produce real merger benefits in the long term because the research conducted did not use data that could reflect the company's long-term financial performance. However, if studied further, it is expected that the research can show better company performance in its financial performance (Dilshad, 2013). The results of this study support the research conducted by Akinbuli & Kelilume (2013).

Ahmed & Ahmed (2014) found that cement sector companies showed a significant increase in financial performance after the merger. However, there are several company sectors that do not show a significant increase or decline in their performance, some of which are chemical and electronics sector companies. Meanwhile, research conducted in the banking sector shows that most profitability ratios, including ROE, ROA, net markup, and non-markup income to total assets have decreased in the post-merger period (Shah & Khan, 2017). On average, these companies can utilize assets very well, thereby increasing operational profits. The study is supported by Reddy, Nangia, & Agrawal (2014) which was conducted in India and found that there was an increase in superior performance during the post-merger period, especially for service and manufacturing sector companies. It has been observed that in the long term, the balance sheet has increased.

Several studies in India have provided results that are inconsistent with the research of Ahmed & Ahmed (2014) and Shah & Khan (2017) which found that mergers and acquisitions can improve company performance. In Indonesia itself, the famous merger and acquisition event carried out by several banks in Indonesia in the year when the monetary crisis occurred, namely Bank Mandiri which has good performance and has survived until now. This does not prove the results of previous studies on performance that has not increased significantly in banking companies.

The results of previous studies on the influence of mergers and acquisitions on the company's financial performance still have different conclusions. There are even samples taken from the same area, but the results are different. Previous research conducted by Shah & Khan (2017) used the capital adequacy ratio as one of its variables because the research was conducted only on banking sector companies.

Research by Shah & Khan (2017) which is supported by Gupta & Banerjee (2017) shows that there is no significant increase in post-merger profitability performance of the selected sample. However, this research was refuted by other research which proved that there was a significant increase in liquidity ratios, profitability, operational performance and financial leverage that occurred in several companies that carried out mergers and acquisitions. Yadav, Rani, & Jain (2015) researched the same thing and showed that the financial condition or financial performance of companies after carrying out mergers and acquisitions was better than before carrying out mergers and acquisitions.

This research continues research by Shah & Khan (2017) which used the capital adequacy ratio as one of the variables in banking sector companies. This research includes the capital adequacy ratio variable as an efficiency ratio because the research sample is not limited to the banking sector. Meanwhile, the use of the capital adequacy ratio only applies to banking sector companies. This research examines the performance of companies in Indonesia that carry out mergers and acquisitions in terms of profitability ratios, liquidity ratios and efficiency ratios.

Literature Review

Portfolio theory states that investment risk can be reduced by combining assets into one portfolio (Jogiyanto, 2014). Mergers and acquisitions combine several companies into one business unit and can increase the number of types of assets into one portfolio because the acquiring company will add the acquired company to its portfolio.

Accounting theory reveals that mergers and acquisitions make companies grow bigger by themselves because the company's assets, liabilities and equity are combined together. The increase in assets, liabilities and equity makes the company hope that the company's financial performance will increase.

The Indonesian Accounting Association in Statement of Indonesian Financial Accounting Standards Number 12 defines mergers and acquisitions as the combination of two or more separate companies into one economic entity because one company merges with another company or gains control over the assets and operations of another company (Indonesian Accounting Association, 2004).

Sinkey (2001) argues that the motivation that drives companies to merge is to get the opportunity to operate on a business scale that is economical, to increase market share, eliminate inefficiencies through better operations and financial control, and the opportunity to combine resources or markets owned by each company.

A merger can be defined as a combination of two or more organizations, where only one company survives. This definition of a merger is also often known as a statutory merger or legal merger (Tarigan, Yenewan, & Natalia, 2016). A merger occurs when a company takes over all operations of another business entity and the acquired entity is dissolved. After the merger, the acquired company is dissolved, the acquiring company continues to operate legally as one business entity and continues the activities of the acquired company. A merger occurs when a company issues shares in exchange for all the common shares of another company. The shareholders of the acquired company become shareholders of the acquiring company and the acquired company is no longer a stand-alone company, but becomes part of the acquiring company.

Acquisition is a type of merger in which one company takes over the ownership of another company so that even though the name of the target company remains, its ownership has been transferred to the acquiring company. This process is often also known as a subsidiary merger (Tarigan, Yenewan, & Natalia, 2016). According to Sudana (2011), the definition of acquisition is the merger of two companies in which the acquiring company buys some of the shares of the acquired company so that the management control of the acquired company is transferred to the acquiring company, while both companies continue to operate as independent legal entities.

Previous studies have not proven that mergers and acquisitions can improve a company's financial performance. In fact, the purpose of mergers and acquisitions should be to expand market share and to increase the strength of the company's value. These goals should be expected to improve the company's financial performance. Research in India, Pakistan, and Europe as explained earlier, still shows very little improvement in financial performance by the acquiring company.

Financial performance is a description of the company's financial condition in a certain period concerning aspects of collecting or distributing funds which are usually measured by indicators of capital adequacy, liquidity and profitability (Jumingan, 2006).

Financial performance according to the Indonesian Institute of Accountants (2004) is the company's ability to control and manage its resources. According to Munawir (2010), the purpose of financial performance is to determine the level of liquidity, profitability, solvency, and stability of the company. A company can be said to have good performance if it can meet its short-term obligations. The way to find out how good the company is or not in meeting its short-term obligations is by knowing its liquidity ratio. Companies hope that by carrying out mergers and acquisitions, their liquidity ratio will improve.

Measuring a company's ability to pay its short-term debts and knowing unexpected cash needs can be calculated using the liquidity ratio. Creditors and suppliers usually refer to the company's liquidity ratio. Ratios that can be used to calculate a company's ability to pay its short-term debts are the current ratio, quick ratio, and accounts receivable turnover (Weygandt, Kimmel, & Kieso, 2013).

Current ratio is a comparison of total current debt compared to current assets. The recommended ratio value is a minimum of 150%, which indicates that the company is able to cover all of its short-term debts using existing current assets (Weygandt, Kimmel, & Kieso, 2013).

Quick ratio is used to measure the company's direct short-term liquidity. What is meant by direct here is that this ratio does not take inventory to calculate the ratio. The formula is a bit similar to the current ratio, except that the current asset component does not include inventory (Weygandt, Kimmel, & Kieso, 2013).

Current cash debt coverage ratio can measure the relationship between cash generated from the company's operating activities and the company's average current liabilities. This ratio shows the company's ability to pay off its current liabilities with cash generated from the company's operating activities. The formula for finding this ratio is to divide the cash generated from operating activities by the company's average current liabilities. Average current liabilities can be obtained by adding the previous year's liabilities with the following year's liabilities and then dividing by two (Weygandt, Kimmel, & Kieso, 2013). Profitability ratios measure the company's income or operating success during a certain period. Income or loss can affect the company to obtain debt and equity financing and can also affect the company's liquidity position and the company's ability to grow. Measuring the profitability ratio can be done by calculating profit margin, asset turnover, return on assets, and return on ordinary shareholders equity (Weygandt, Kimmel, & Kieso, 2013).

The profit margin ratio measures what percentage of each dollar amount of sales generates profit. This ratio can be calculated by comparing net income to net sales. Companies with high inventory turnover, such as supermarkets or other grocery stores, generally have low profit margins. Conversely, companies with lower inventory turnover, such as jewelry stores or aircraft manufacturers, usually have high profit margins (Weygandt, Kimmel, & Kieso, 2013).

The return on assets ratio measures the overall profitability of a company. This ratio can be measured by comparing net sales to average assets. The higher the number, the better (Weygandt, Kimmel, & Kieso, 2013).

The return on ordinary shareholder's equity ratio is one of the most frequently used measures of a company's profitability. This ratio measures profitability from the perspective of ordinary shareholders. This ratio shows how many dollar amounts can be generated from the shares outstanding. This ratio can be calculated by comparing net income to average ordinary shareholder's equity.

Munawir (2010) defines the activity ratio as a ratio to assess the company's ability to carry out daily activities or the company's ability in sales, collection of receivables or utilization of assets owned. The efficiency ratio can be measured by calculating working capital turnover, assets turnover, and accounts receivable turnover.

Working capital turnover ratio is measured by comparing sales with a company's net working capital. The net working capital value is obtained from current assets minus current liabilities. This ratio measures the working capital capability in a cycle period in a company that affects the recording of financial transactions.

Assets turnover ratio is a comparison between sales and the average assets owned by a company. The ratio measures the effectiveness of the use of funds embedded in assets to generate sales generated by each unit of currency invested in the fixed assets. This ratio functions to evaluate the company's ability to utilize its assets effectively so that income increases which is recorded according to the types of financial statements. If the turnover is slow (low), then the capacity will be too large or the availability of fixed assets is large so that it is less useful.

Accounts receivable turnover ratio measures the average time it takes a company to convert receivables into cash in a given period. This ratio is measured by comparing net credit sales with average net receivables. The results of this ratio are easier to understand if we convert them into days. The way to do this is by comparing the ratio results with 365 days (Weygandt, Kimmel, & Kieso, 2013).

A company can be said to have good performance if it can meet its short-term obligations. The way to find out how good or bad the company is in meeting its short-term obligations is by knowing its liquidity ratio. Companies that merge certainly hope to be able to meet their short-term obligations well. Because all the resources of companies that have merged and acquired are combined into one unit. Companies hope that by merging and acquiring, their liquidity ratio will be better.

Singh & Gupta (2015) researched that there was a decline in performance in the current ratio, which is one component of the liquidity ratio. The results of this research do not match the objectives of mergers and acquisitions. Based on this explanation, the author explains the first hypothesis as follows:

H1: There is a difference in liquidity ratios after mergers and acquisitions

Apart from being assessed by liquidity ratios, a company can be categorized as a company that has good performance if the company is able to earn large profits by managing its assets, equity and capital. Profitability ratios are a way to find out how well a company is able to make a profit. The

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greater the profitability ratio obtained, the better the company's performance in generating profits. Companies that carry out mergers and acquisitions hope to get greater profits than before carrying out mergers and acquisitions.

The company carries out expansion in the form of mergers and acquisitions aimed at increasing profits. This goal was not proven in Shah & Khan's (2017) research. The results of their research show that there has been a decline in performance in most components of the profitability ratio. Based on this, the author decided to create a second hypothesis as follows:

H2: There are differences in profitability ratios after mergers and acquisitions.

Companies that have good performance can be seen from the efficiency ratio. The efficiency ratio or activity ratio can measure how effectively a company can utilize its assets to generate income. Mergers and acquisitions result in an increase in the value of company assets. The increasing company value will make the company's transactions more complex. The efficiency ratio will show whether companies that have carried out mergers and acquisitions can manage their assets which have increased in value, effectively and efficiently or not. Companies that carry out mergers and acquisitions hope that the profits will be greater and one way to increase their income is to utilize existing assets as efficiently and effectively as possible. The research gap in this study is to add efficiency ratios to determine changes in the performance of companies carrying out mergers and acquisitions, whether they are getting better or not. Based on this explanation, the author decided to create a third hypothesis as follows:

H3: There is a difference in efficiency ratios after mergers and acquisitions.

Research Methods

The research objects and data used in this research come from annual and financial reports published by companies listed and still active in trading on the Indonesia Stock Exchange two years before and after the merger.

The population of this research is all companies that carry out mergers and acquisitions that are registered with the Komisi Pengawas Persaingan Usaha (KPPU) as a business competition supervisory commission and listed on the Indonesia Stock Exchange (IDX) using purposive sampling through the criteria specified in the sampling technique.

The data analysis technique used is descriptive statistics and the classic assumption test, namely the normality test. Hypothesis testing is carried out using a different test, namely the paired sample t-test for normally distributed data. Wilcoxon signed rank test for data that is not normally distributed.

Discussion

Referring to the sample research criteria, the total sample obtained was 16 companies. Table 1 shows the sample selection process to be used.

Table 2 shows the average of each component of the liquidity ratio, activity ratio and profitability ratio before and after the merger. Liquidity ratios consist of current ratio, quick ratio, and current cash debt coverage ratio. Activity ratios consist of receivable turnover and working capital turnover. Profitability ratios consist of profit margin, ROA, and ROE.

Table 1. Sample Selection Process

Sample Criteria	Total
Registered to carry out mergers and acquisitions	65
Not listed on IDX	(41)
Does not have complete financial reports	(8)
Total sample	16
Total sample of financial statements	**64**

Table 2. Average Component Rasio

Comp CODE	Liquidity		Activity		Profitability	
	LABMA	LAAMA	AABMA	AAAMA	AABMA	AAAMA
SSMS	1.6459	2.7975	7.8519	10.1661	0.2259	0.1003
JSMR	0.6221	0.4149	26.2578	0.0513	0.0743	0.1210
DEWA	0.5677	0.4210	3.9661	(1.2930)	0.0015	0.0096
ERAA	0.4237	0.5090	10.5973	12.5619	0.0466	0.0785
WSKT	0.4320	0.6025	4.2570	65.4965	0.0962	0.1122
LSIP	1.6982	3.4572	47.9611	23.1377	0.1237	0.0821
FPNI	0.3002	0.4540	(3.1555)	22.8685	(0.0085)	0.0128
BUKK	0.5620	0.5064	2.7833	(0.3605)	0.0557	0.1410
PLIN	1.2142	0.8593	5.1701	6.9817	0.1374	0.1299
SGRO	0.5905	0.6130	7.8619	8.8980	0.0843	0.0402
PPRO	0.5687	1.1102	1.1586	0.4945	0.1323	0.1080
NIRO	0.8634	4.1760	7.8254	3.0275	(0.1026)	(0.0128)
GEMS	0.8917	1.0373	3.0139	6.9597	0.0183	0.2367
BTEK	0.0577	0.8509	8.8073	18.6895	(0.0139)	0.0090
TBIG	0.3500	0.6416	2.9651	(36.8126)	0.3012	0.3404
ADRO	1.2299	1.7370	5.6952	5.4068	0.0444	0.1125
Max	*1.6982*	*1.6982*	*47.9611*	*65.4965*	*0.3012*	*0.3404*
Min	*0.0577*	*0.4149*	*(3.1555)*	*(36.8126)*	*(0.1026)*	*(0.0128)*
Mean	*0.7511*	*1.2617*	*8.9385*	*9.1421*	*0.0761*	*0.1013*
STD Dev	*0.4591*	*1.1389*	*11.7683*	*19.6743*	*0.0939*	*0.0869*

Tabel 3. One-Sample Kolmogorov-Smirnov Test

		LIQ_BE	LIQ_AF	ACT_BE	ACT_AF	PRO_BE	PRO_AF
N		16	16	16	16	16	16
Normal Parameters[a,b]	Mean	.7511	1.2617	9.1358	11.5462	.0839	,1021
	Std. Deviation	.47419	1.17630	11.96913	16.41243	.08578	,08877
Most Extreme Differences	Absolute	.232	.301	.326	.241	.164	,206
	Positive	.232	.301	.326	.225	.141	,206
	Negative	-.108	-.236	-.223	-.241	-.164	-,125
Test Statistic		.232	.301	.326	.241	.164	.206
Asymp. Sig. (2-tailed)		.021[c]	.000[c]	.000[c]	.014[c]	.200[c,d]	.069[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

The maximum value of the liquidity ratio before the merger is 1.6982 owned by the LSIP company. While the highest liquidity ratio after the merger is 4.1760 owned by the NIRO company. The maximum value of the activity ratio before and after the merger is 47.9611 and 65.4965 owned by the LSIP and WSKT companies, respectively. While the maximum value of the profitability ratio before and after the merger is 0.3012 and 0.3404, respectively, both owned by the TBIG company.

The minimum value of the liquidity ratio before and after the merger is 0.0577 and 0.4149 owned by the BTEK and JSMR companies, respectively. The activity ratio has a minimum value owned by the FPNI and TBIG companies, respectively, which are -3.1555 and -36.8126. Meanwhile, the profitability ratio has a minimum value that both NIRO companies have before and after the merger, respectively, are -0.1026 and -0.0128. The average of the liquidity ratio, activity ratio, and profitability ratio before and after the merger are respectively 0.7511 and 1.2617; 8.9385 and 9.1421; 0.0761 and 0.1013. The standard deviation values of the liquidity ratio, activity ratio, and profitability ratio before and after the merger are respectively 0.4591 and 1.1389; 11.7683 and 19.6743; and 0.0939 and 0.0869.

The type of normality test used is the Kolmogorov Smirnov test. The test results show that the number of samples calculated is sixteen. The results needed in the normality test are asymp. Sig. (2-tailed). If the value is less than 0.05, the data is not normally distributed. Table 3 shows that the liquidity ratio and activity ratio are not normally distributed because the asymp. Sig. (2-tailed) values owned by both ratios are partly less than 0.05, namely in the part before the merger in the liquidity ratio with a value of 0.021 and in the activity ratio before and after the merger with values 0.000 and 0.014.

Conversely, the profitability ratio has an asymp. Sig. (2-tailed) value before and after the merger above 0.05, namely 0.2 and 0.069. So the profitability ratio has a normal data distribution. The hypothesis test of the liquidity ratio and activity ratio uses the Wilcoxon sign rank difference test type. While the profitability ratio uses a parametric test because the data distribution is normal. The parametric test that will be used is the paired sample t-test.

The results of the hypothesis testing are shown in Table 4. It can be concluded that there is no significant difference in the liquidity ratio in companies that conduct mergers and acquisitions. Mergers and acquisitions are intended to have a positive effect on the company's performance. However, based on the research that has been done, only the current ratio shows a significant change. This shows that the company has an increased ability after the merger and acquisition in meeting its short-term obligations using current assets. The results of this study support the research conducted by Kalra (2013) which found that there was a significant increase in the liquidity ratio in companies that conduct mergers and acquisitions.

On average, in descriptive statistics, it can be seen that the change in liquidity ratios other than the current ratio shown after mergers and acquisitions is a positive change. However, the positive increase that occurred was not significant. The company's quick ratio and current cash debt coverage ratio after mergers and acquisitions did not improve significantly. This shows that the company requires a combination of all its current assets to meet its current liabilities to the maximum. If one of the components in its current assets is removed, such as the quick ratio which does not include inventory as a current asset and the current cash debt coverage ratio which only uses net cash from operations, then the company cannot maximize its ability to meet its current liabilities.

Referring to the results of the hypothesis testing, it can be concluded that hypothesis 2 is not supported. In the profitability ratio, descriptively, merger and acquisition activities show positive changes. However, after conducting further tests, the changes that occur are not significant. The insignificant results on the profitability ratio are because the company spends a lot of money on the merger and acquisition process (Payamta, 2004) but are not comparable to the increase in revenue. Another reason why the profitability ratio does not have a significant difference is because the company failed to optimize its resources which increased after the merger and acquisition, so that the expected return could not be achieved (Finansia, 2017). Based on this, it can be concluded that the profitability ratio in companies that carry out mergers and acquisitions has a difference compared to before doing so. The results of this test support the research conducted by Gupta & Banerjee (2017) and Shah & Khan (2017).

Table 4. Hypothesis Test

Variable	Ratios	Sig 2-tailed
Liquidity Ratio	*Current Ratio*	0.039
	Quick Ratio	0.087
	Curent Cash Debt Ratio	0.359
Profitability Ratio	*Profit Margin*	0.439
	ROA	0.58
	ROE	0.12
Efficiency Ratio	*Working Capital Turnover*	0.505
	Receivable turnover	0.642

Furthermore, the results of the hypothesis testing can be concluded that hypothesis 3 is not supported. The test results found are very far from the level of significance. This shows that the mergers and acquisitions carried out by the company in 2016 have an efficiency ratio that has not changed significantly compared to before the merger and acquisition. Receivable turnover on the efficiency ratio for two years before and after the merger and acquisition decreased on average, although it did not change significantly. The decrease in the ratio is likely due to the company implementing the wrong method in conducting mergers and acquisitions or the target company does not have experience in conducting mergers and acquisitions, so that the company cannot operate efficiently (Sundari, 2016). Another reason why the efficiency ratio is not significant is because the company has failed to utilize and optimize assets and capital effectively after the merger and acquisition as found by Finansia (2017). The results of this study do not match those found by Yadav, Rani, & Jain (2015) who found that mergers and acquisitions can increase the efficiency ratio.

Further analysis was conducted descriptively tracing the efficiency ratio based on the company sector. The results of the analysis showed that the agriculture, infrastructure, and mining sectors experienced declining performance. The cause of the weakening performance of the mining sector was due to government regulations that limit the selling price of coal to the state electricity company (Priyambada, 2017). This regulation made shareholders decide to release their investments because they expected a decline in the company's sales in the coal sector. The infrastructure sector also experienced a decline due to the government's large development activities and many caused the company's cash flow to be in a negative condition which caused investors to be uninterested in investing in companies in that sector. This is actually reasonable because infrastructure companies tend to spend cash first before the project is completed (Syayardi, 2017). However, this still makes the company's performance in utilizing resources, namely assets, decline because the costs incurred are greater than the income, so the company has not been able to optimize its assets to generate income.

Overall, it can be concluded that merger and acquisition activities do not fully bring companies to have better performance. Based on the test results found, only the liquidity ratio experienced significant changes after the company conducted mergers and acquisitions. Other ratios, namely profitability and efficiency, only descriptively showed positive changes. However, after further examination, the positive changes that occurred were not significant. So it cannot be concluded that the liquidity ratio and profitability ratio experienced changes after the company conducted mergers and acquisitions.

Conclusion

This research aims to determine the impact of mergers and acquisitions on company financial ratios. The ratios used as variables in this research are the liquidity ratio, profitability ratio, and efficiency ratio. It is hoped that this research can show that there are significant differences in these ratios after the company carries out mergers and acquisitions. Based on the research results, it was found that the current ratio has a significant influence on performance. Other variables besides the current ratio have no influence because there are no significant differences in performance after carrying out mergers and acquisitions. Only the company's ability to meet its short-term obligations with current assets has increased significantly.

Limitations

This study only used 16 companies with 64 financial statements. In this study, the independent variables used are Current Ratio, Quick Ratio, Current Cash Debt Ratio, Profit Margin, ROA, ROE, Working Capital Turnover and Receivable Turnover.

Suggestion

Suggestions for future research are to add other variables to measure other financial performance such as solvency ratios. In addition, subsequent research samples may take a time span of more than two years.

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