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Research Article

Analysis of the Impact of Acquisition on Firm Financial Performance

Latri Nurjanah[1], Tettet Fitrijanti[2*]
[1,2] Accounting Study Program, Padjadjaran University

Abstract
This study aims to prove that firms carry out an acquisition strategy intending to obtain additional funds to achieve better firm synergy and encourage increased firm performance. This study uses a comparative research method. The research sample comprised 18 manufacturing firms that made acquisitions between 2008 and 2020. The analytical tools used were the paired sample t-test and the Wilcoxon signed rating test. The research results show that return on equity (ROE)manufacturing firms have a significant difference before and after the acquisition. Moreover, there is no significant difference in the current ratio, asset turnover ratio, debt to equity ratio, and price book value ratio of manufacturing firms before and after the acquisition. In contrast, the ratio of return on equity of manufacturing firms has a significant difference between before and after the acquisition. This study's results indicate that the acquisitions made by firms do not make a significant difference to manufacturing firms.

Keywords: Acquisition, Financial Performance, Financial Ratios, Firm Value

JEL Classification: C31, E50

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Corresponding author: Tettet Fitrijanti (tettet.fitrijanti@fe.unpad.ac.id)

1. Introduction

Advances in the level of science and technology universally have led to major changes in the world economy. This development resulted in increasingly difficult competition in business. So firms need to develop their strategy in dealing with existing competition and enable it to develop into a more advanced one. One strategy to be able to compete is to restructure the firm. Business restructuring is a rearrangement of the entire business chain. Firm restructuring is carried out by reforming the firm's management and capital management strategies so that there is an increase in the firm's performance and the firm's competitiveness. According to Nadapdap (2012), firms recognize four types of restructuring: mergers, consolidations, takeovers, and separations.

One form of corporate restructuring is an acquisition or takeover of a firm's ownership from another party. Acquisition of firms makes the party to be acquired give ownership control to the acquirer (Singh, 2014; Jacoub et al., 2020). Implementing the acquisition strategy is expected to make the firm grow faster, reducing competitors. In the recording by the Business Competition Supervisory Commission (KPPU), acquisitions in Indonesia changed from 2015-2020. The following data was obtained from KPPU regarding the number of acquisitions in Indonesia:

Table 1. Acquisition of Indonesia 2015-2020 Period

Year	Acquisition
2015	51
2016	65
2017	90
2018	74
2019	120
2020	195

Source: KPPU (2023)

In the notification of acquisitions shown in the table above, it can be seen that acquisitions in Indonesia experienced a significant increase in 2020, namely as many as 195 firms were recorded as having carried out acquisition activities and reporting to KPPU. Whereas in 2018, there was a decrease in the number of reported acquisitions by firms compared to 2017.

The firm is implementing an acquisition strategy to provide the firm with additional funds and skills for management to achieve better firm synergies and encourage increased firm liquidity. There are problems in the implementation of acquisitions. According to Suta (2000), the involvement of many parties, such as investment brokers, law firms, and accounting, in the acquisition process results in very expensive costs. Firms need help to create firms with high profits and competitiveness in the market, which decreases the firm's financial performance after the acquisition compared to the firm's financial performance before the acquisition (Jacoub et al., 2020b).

The firm's financial performance is an illustration of the results of the firm's work in creating value. The acquisition's success can be observed by comparing the firm's financial performance before and after the acquisition (Johan et al., 2012). In measuring the level of a firm's financial performance, a measuring instrument is used in the form of financial ratios. According to Novaliza and Djajanti (2013), the calculation results of the ratio come from the financial reports issued periodically by the firm.

In addition, according to Septiana (2019) and (Hu et al., 2020a), ratio analysis links balance reports. It reports profit and loss between one and the other, which provides an overview of the history and evaluates the condition of a firm. Financial ratio analysis consists of liquidity, profitability, activity, and solvency. The following is a comparison of the level of profitability ratios, namely Return On Equity (ROE), on the firm making the acquisition.

Table 2. Return On Firm Equity Before and After Acquisition

Firm	Before acquisition	After acquisition
PT. Superior Technoculture Earth	24.1271	4.83697
PT. Sri Rejeki Isman, Tbk.	15.39	16,38
PT. Multistrada Arah Sarana, Tbk.	-3.1129	-21.71
PT. Gajah Tunggal Tbk.	0.79143	-1.2689
PT. KMI Wire and Cable Tbk.	18,28	13,6

Source: Firm Financial Statements (2023)

Based on the result in Table 2 above, it is known that the level of the value of return on equity from the firm that made the acquisition has decreased compared to before making the acquisition. However, PT. Sri Rejeki Isman, Tbk, experienced an increase after the acquisition compared to before. The value of return on equity shows how the firm obtains profits or profits obtained by business owners from equity.

During the acquisition period, the firm experienced a change in the profitability value. Profitability is a financial ratio that shows the financial performance firm. The firm is expected to be able to maintain or increase its profit in the acquisition process. Thus the firm needs to review the acquisition strategy that has been implemented and see how it impacts financial performance.

2. Literature Review and Hypothesis

Acquisition

Indonesian Accounting Association (IAI), in the Statement of Financial Accounting Standards (PSAK) number 22 of 1999 concerning business combination accounting paragraph 08states that "Business Combination is the unification of two or more separate firms into one economic entity because one firm merges with (uniting with) another firm or gains control (control) over the assets and operations of another firm." Based on the form, business combinations can be divided into acquisitions, mergers, and consolidation. When carrying out a business combination according to the Statement of Financial Accounting Standards (PSAK) no. 22, the firm applies the acquisition method in which all assets and liabilities taken over are recorded at fair value on the acquisition date (Indonesian Institute of Accountants (IAI, 2017)). The acquisition is an English absorption word, namely "Acquisition," meaning making an effort to acquire or own something. The acquisition can be interpreted as another party's takeover of firm ownership.

The acquisition is a strategy in which two firms agree to integrate the operations of their firms that have the same base because they have resources and capacities managed together to increase competitiveness (Johan et al., 2012; Černius & Birškytė, 2020). Before making an acquisition, firms need to consider the firm's financial aspects of the costs incurred for making acquisitions, the complex integration process, and post-acquisition integration (Hamidah & Noviani, 2013). Firm Financial Performance Performance Corporate finance assesses and evaluates the firm's activities in a certain period and whether it has been effective and efficient. Financial performance is defined as the determination of certain metrics used to assess the success of a business in obtaining revenue. (Högerle et al., 2020).

By analyzing the firm's financial performance, it can determine the firm's growth rate and the firm's prospects in the future. The success of the firm is reflected in how the goals and standards that the firm has formulated are achieved. Measurement of financial performance is used by the firm so that the firm's operations grow and be able to compete with other firms. Financial performance analysis is a way to evaluate, calculate, measure, and interpret data critically and offer solutions to a firm's finances within a certain period (Johan et al., 2012; Santosa, 2010).
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Analyzing financial ratios is one way to evaluate a firm's financial performance. Ratio analysis is a tool to compare the financial position firm by analyzing and relating the various items in the financial statements. Firm leaders use the analysis of financial ratios as a reference for making management decisions that will be taken in the future and for understanding the firm's financial development (Amri, 2018).

This study projects financial performance into the current ratio, total asset turnover, debt-to-equity ratio, and return on equity.

1. Current Ratio (CR)

   The current ratio is obtained by dividing current assets using short-term liabilities.

2. Total Asset Turnover (TATO)

   Total asset turnover shows how the firm uses all assets to obtain the number of net sales. If the assets owned exceed the sales level, it indicates a slow asset turnover.

3. Debt to Total Equity Ratio (DER)
   This ratio identifies how much capital (total equity) can guarantee all of the firm's obligations.
4. Return on Equity (ROE)
   ROE is calculated by dividing the current year's net profit by equity. Return on equity measures the acquisition of profits or profits obtained by business owners from equity.

The value of the firm

One of the firm's goals is to optimize the acquisition of firm results for shareholders (stockholder wealth maximization) or increase the firm's stock price (Brigham & Joel, 2012). It can be interpreted that the level of its shares assesses the firm's value. The better the value of a firm's stock, the better the firm's value, and the shareholder will get a high profit. The firm expects to have a good corporate value because it will be profitable and facilitate the firm in fulfilling the interests of the firm. However, a good firm value will harm and make it easier for the firm to achieve its goals. So the firm tries to get a good value (Santosa et al., 2020; Tika, 2012).

It can be concluded that the firm's value describes the firm's success in management which is often associated with the stock price of the firm. Various investment opportunities affect the firm's value based on the stock market. The value of the firm can be seen from the stock price. The firm's market value is the market price of the firm's shares resulting from buying and selling shares. The market price of the stock reflects the true value of the firm's assets (Hu et al., 2020b).

Measuring the value of a firm projected by Price to Book Value (PBV) is a consideration for investors in determining the purchase of firm shares. If a firm has a PBV value above 1, it means that its shares' market value is higher than its book value. So the firm is operating well. A high PBV indicates that the firm has a high value in the eyes of investors when looking at the amount of funds invested. A high PBV indicates that the firm's future opportunities are good. Firm owners expect high value from their firm, which indicates that the shareholders are prosperous. PBV is a benchmark for investors to invest their capital in a firm. The price book value (PBV) ratio indirectly affects stock prices because it indicates the possibility of changes in stock prices (Santosa, 2019).

Conceptual Framework

Based on problem identification, the conceptual framework shows the relationship between firm acquisition and financial performance. This study compares the firm's financial performance before and after the acquisition and see if there is a difference after the acquisition.

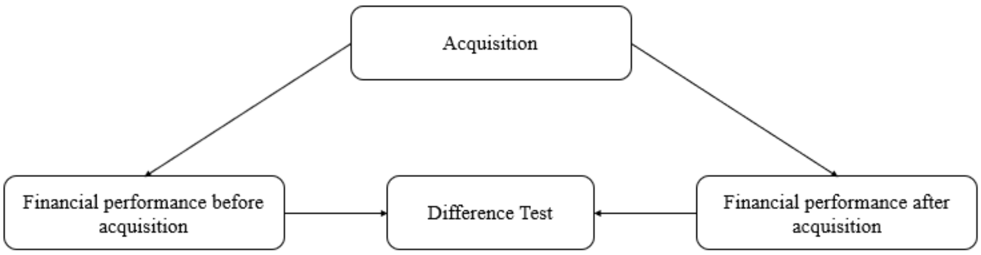

Figure 1. Framework Conceptual

3. Data and Method

Population and Sample

The population is a collection of elements with certain characteristics that can be used to make conclusions about the point of these elements in the form of people, managers, auditors, firms, events, or anything interesting to observe or study (Santosa & Hidayat, 2014). To take the sample, used a purposive sampling technique. According to (Sugiyono, 2017), purposive sampling is a sampling technique that considers certain aspects or choices.www.kppu.go.id.

Data collection technique
In collecting research data, researchers used the documentary study method from data acquisition of manufacturing firms on the site www.kppu.go.id, the annual publication report on IDX, and the firm website. Data collection was collected by taking firm acquisition data and annual reports from manufacturing firms listed on the Indonesia Stock Exchange (IDX) for 2008-2020.

Data analysis
This study used data analysis techniques to test the hypothesis using the paired sample t-test analysis model for normal data variants and analysis models Wilcoxon's signed rank test for abnormal data variance.

1. Normality

   Ghozali (2013) states that the normality test is intended to determine whether each variable is normally distributed. The normality test is necessary because other variable tests must be carried out, assuming the residuals follow a normal distribution. The Kolmogrov-Smirnov test method was used in the normality test in this study.
2. Paired Sample t-test

   T-test paired samples are different tests of two paired samples. Paired sample points are the same subject but have different treatment points. Since the paired sample t-test is a parametric statistical procedure, the assumption that the data is normally distributed must be satisfied. Paired sample t-test assumes that each pair must be performed under the same conditions (Suryani & Hendriyadi, 2018; Santosa et al., 2020). Wilcoxon Signed the Rank test.

   The Wilcoxon signed rank test is an alternative to the paired t-test when it fails the normality assumption. The basis for the Wilcoxon signed rating test decision is that if the probability value is ≤ 0.05, there is a difference unless there is no difference.

4. Results

Financial Performance of Manufacturing Firms Prior to Acquisition

The descriptive results of the condition of the financial performance of manufacturing firms before the acquisition can be explained as follows:

1. The average value of the current ratio during the two periods before the acquisition was 153.0995. The average current ratio value of 153.0995 indicates that the average firm's ability to use current assets to cover current debt is 153.0995% or 1.53 times.
2. The average value of total assets turnover during the two periods before the acquisition of 105.0849. The average value of total assets turnover is 105.0849, indicating that the average level of asset use in generating sales is 105.0849 in one year.
3. The average debt-to-total equity ratio during the two periods before the acquisition was 152.1923. The average value of the debt to total equity ratio is 152.1923, indicating that a firm's average level of debt to equity is 152.1923%.
4. The average return value on equity during the two periods before the acquisition was 12.8526. The average return on equity is 12.8526, indicating that the average firm's ability to return on common stock equity is 12.8526%.

Financial Performance of Manufacturing Firms After Making Acquisitions

The descriptive results of the condition of the firm's financial performance after the acquisition can be explained as follows:

1. The average value of the current ratio during the two periods after the acquisition was 157.0832. The average current ratio value is 157.0832, indicating that the average firm's ability

to use current assets to cover current liabilities is 157.0832% or 1.57 times.
2. The average value of total assets turnover during the two periods after the acquisition is 97.6538. The average value of total assets turnover is 97.6538, indicating that the average use of assets in generating sales is 97.6538% in one year.
3. The average debt-to-total equity ratio for the two periods after the acquisition was 128.5881. The average value of the debt to total equity ratio is 128.5881, indicating that the firm's average level of debt to equity is 128.5881%.
4. The average return on equity during the two periods after the acquisition is 8.4359. The average return on equity is 8.4359, indicating that the average firm's ability to return on common stock equity is 8.4359%.

Firm Value Before Acquisition
Firm value is an investor's perception of the firm's ability and level of success in obtaining profits, which is often associated with the firm's stock price. In this study, determining the level of firm value is measured using PBV (Price Book Value), which is obtained from a comparison between the stock price on the market and the value of shares on the firm's books. The results showed that the average Price Book Value (PBV) value for the two periods before the acquisition was 2.3774. The average value of the Price Book Value (PBV) is 2.3774, indicating that the value of the firm's shares in the market is 2.3774 times greater than that of the shares in the firm's book.

Firm Value After Acquisition
The results of the descriptive data show that the average value is Price Book Value (PBV) for one year after the acquisition was 2.0438. Price average value Book Values (PBV) of 2.0438 indicates that the value of the firm's shares in the market is 2.0438 times greater than that of the shares in the firm's books.

5. Discussion

Differences in Financial Performance of Manufacturing Firms Before and After Making Acquisitions
To compete with other firms in the same field, the firm determines various strategies, including restructuring the firm. Firm restructuring is done by rearranging the firm's strategy through management and firm capital. This finding aims to improve the firm's performance so that it has competitiveness with similar firms. The acquisition is a strategy in which two firms agree to integrate the operations of their firms that have the same base because they have resources and capacities managed together to increase competitiveness (Jacoub et al., 2020a).

Firms make acquisitions to increase firm value and achieve management goals or targets. Implementing the acquisition strategy is expected to make the firm grow faster, reduce competitors, achieve synergies, increase funds, increase management skills, increase technology sources, and increase owner liquidity. It is expected that by making acquisitions, the firm's financial performance will also grow (Johan et al., 2012).

Based on research conducted on 18 samples of manufacturing firms that made acquisitions in 2008-2020, it is known that the ratios financial statements show that there are no significant differences in manufacturing firms before and after the acquisition. This result is indicated by the absence of significant differences in manufacturing firms' current ratio, asset turnover ratio, and debt-to-equity ratio before and after the acquisition. In comparison, the ratio of return on equity of manufacturing firms has a significant difference between before and after the acquisition. This study's results indicate that the acquisitions made by firms do not make a significant difference to manufacturing firms.

Differences in Value of Manufacturing Firms Before and After Making Acquisitions
One of the firm's goals is to optimize the acquisition of firm results for shareholders (stockholder wealth maximization) or increase the firm's stock price (Brigham & Joel, 2012). It can be

interpreted that the level of its shares assesses the firm value. The better the value of a firm's stock, the better the firm's value, and the shareholder will get a high profit.

The value of the firm can be seen from the stock price. The firm's market value is the market price of the firm's shares resulting from buying and selling shares. The market price of the stock reflects the true value of the firm's assets. This study projects firm value with a price book value (PBV). PBV is a benchmark for investors to invest their capital in a firm. The price book value (PBV) ratio indirectly affects stock prices because it indicates the possibility of changes in stock prices. Based on research conducted on 18 samples of manufacturing firms that made acquisitions in 2008-2020, it is known that price fluctuation book-value ratios show no significant difference in manufacturing firms before and after the acquisition (Johan et al., 2012).

6. Conclusion

Researchers can draw conclusions from the results of the research and discussion in the previous chapter. Based on research conducted on 18 samples of manufacturing firms that made acquisitions in 2008-2020, it is known that the return on equity ratio of manufacturing firms has a significant difference between before and after the acquisition. There are no significant differences in manufacturing firms' current ratio, asset turnover ratio, and debt-to-equity ratio before and after the acquisition. Price book value ratios show no significant difference in the manufacturing firm before and after the acquisition.

Recommendation

Based on the conclusions above, it can be put forward some suggestions that can be used as consideration, namely as follows, the firm management should pay attention to and maintain the level of financial performance with the precautionary principle that always takes into account the financial risks that are likely to occur when making an acquisition. This result is because the financial performance of several manufacturing firms experienced a decrease in their ability to perform financially after the acquisition. It is expected that further researchers can use this research as a reference.

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