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Comparison of the Financial Performance of Banking Companies Before and After Merger or Acquisition

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ABSTRACT

In competitive era nowadays, management is expected to make the right business strategies, including merger or acquisition actions, for optimizing the value of the company. This study aims to analyze the differences in financial performance before and after a merger or acquisition. The research method used is a quantitative approach with secondary data obtained from the idx.co.id website. The population in this study were banking sector companies listed on the Indonesia Stock Exchange (IDX). The sampling technique was carried out using purposive sampling method with a total sample of 6 companies. The research data used are financial statements for 2 years before and 2 years after the merger and acquisition. The data is processed using the SPSS v.25 application. The results of the study using the Wilcoxon signed test showed that there were significant differences in TATO and EPS after the merger or acquisition, then there were no significant differences in CR, DER, ROA, and NPL.

Keywords:
Financial Performance, Merger, Acquisition, Banking, Signaling Theory

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1. Introduction

In higher business competition environment, company management is required to improve the company's strategy in surviving under uncertainty economic condition (Bernard et al., 2020; Bonaime et al., 2018; Dang et al., 2024; Nguyen & Phan, 2017). Management must be able to make the right business strategy so that the company can optimize company value (Garad et al., 2021; Hernawati et al., 2021; Idris et al., 2020; Kuswati et al., 2022). One of the business strategies is increasing new capital and factory capacity, company acquisitions, and adding production units or mergers (Hanelt et al., 2021; P. Hughes et al., 2020). In expanding their business, many companies take merger or acquisition actions (Ai & Tan, 2020). Merger is the process of integrating two business entities, and its legal existence is in one or both of these business entities. Mergers occur between companies of varying national origin, a particular confluence of corporate cultures (Battisti et al., 2023; Liu et al., 2021). The acquisition the acquiring company will take ownership control of the target company (Ji & Jiang, 2022; Rao-Nicholson et al., 2020).

The trend of mergers or acquisitions in Indonesia is increasing year after year. Based on data collected from the Business Competition Supervisory Commission (KPPU), in 2018 there are 74 notifications related to merger or acquisition actions, in 2019 it increased to 120 notifications, and in 2020 it increased to 195 notifications related to merger and acquisition actions. One of the sectors that carry out many merger or acquisition actions is the banking sector. The banking sector has an

important role in supporting the Indonesian economy as a collector and distributor of public funds and aims to support the implementation of national development in order to increase equitable development and its results, economic growth and national stability, towards improving the lives of many people (OJK, 2017). Banking is a very complex industry, highly regulated by various laws, regulations, and related acts with regard to capital and liquidity requirements (Tampakoudis et al., 2022)

In 2019 the Covid-19 pandemic began, which caused a decrease in economic growth in Indonesia and the world, and had a significant impact on the Banking Industry in Indonesia, especially in relation to credit growth and third party funds. For this reason, banks need to be encouraged to strengthen themselves through various efforts, including by carrying out Mergers, Consolidations and Acquisitions. OJK issued regulation Number 12/POJK.03/2020, in which banks are required to have a minimum core capital of IDR 2 trillion by the end of 2021 and a minimum of IDR 3 trillion by the end of 2022, so banks that feel they cannot meet these regulations must immediately prepare to find strategic partners to consolidate. If it cannot meet the core capital, there are several options that can be chosen, namely conducting a forced merger or acquisition, downgrading from a commercial bank to a small credit bank, and closing the company which is carried out by itself and has been approved by shareholders. Synergies between two or more banks can occur due to Mergers and Consolidations. Thus, bank with better performance will be created (Adhikari et al., 2023a, 2023b; Yildirim et al., 2023).

Also, bank reorganization can support the creation of a healthy and efficient banking system (J. Chen et al., 2024; Du & Sim, 2016; Kobayashi & Bremer, 2022). Because each company's capital needs are getting stronger (Bindal et al., 2020). The success or failure of the merger or acquisition action can be seen from the company's financial statements, by looking at the company's financial performance before and after the merger or acquisition action (J. P. Hughes et al., 2003; Vanwalleghem et al., 2020). Financial performance is an analysis conducted to see the extent to which a company complies with the rules of financial implementation properly and correctly. A good financial performance indicates the company level of competitiveness and the ability to increase company value (Sengar et al., 2021). In general, companies use financial ratios as a measure of financial performance because they are considered practical and relevant in the short term. Financial reports are expected to be helpful for users to make financial economic decisions.

1.1 Signaling Theory

Signaling theory states that the market interprets a company's action as a signal, such as an acquisition motive, that influences or predicts acquisition performance (Aalbers et al., 2021). The signal is an information that explains management's attempt to realize the owner's wishes, and reduce information asymmetry (Krukowski et al., 2023; Krukowski & DeTienne, 2022). This information is considered an important indicator for investors and business people in making investment decisions. Information signals can be in the form of positive and negative information. If the announcement issued by management contains information, then the announcement will provide positive or negative signals (W. Chen et al., 2022). If the information can provide synergy for the company, it can be said that it is a positive signal or a good signal. Otherwise, it is said to be a negative signal or a bad signal.

1.2 Synergy Theory

Synergy happens if two or more companies merger and get greater profits than if they stand alone. Synergies are expected to help increase company value. Companies that carry out mergers or acquisitions are expected to create synergies together in order to increase company value which can affect the performance of financial statements later. Synergy can be achieved if the company has effective coordination and builds good communication.

1.3 Financial Performance Measurement

Measuring the company's financial performance has several objectives, namely, to determine the level of liquidity, determine the level of solvency, determine the level of profitability and profitability, and determine the level of business activity. Information on the financial position from past financial performance is often used as a basis for predicting the financial position and performance of the company in the future and matters that directly interest stakeholders such as dividend payments,

wages, price movements, securities and the company's ability to fulfill its commitments when due. Comparison of mergers or acquisitions financial performance will be measured by the following ratios: Liquidity proxy by current ratio, activity ratio proxy by total assets turnover, solvency ratio proxy by debt to equity ratio, profitability ratio proxy by return on assets, market ratio proxy by earning per share, bank risk ratio proxy by non-performing loan.

Hypothesis development

1. Difference in Current Ratio before and after a merger or acquisition

Current ratio is one of the ratios that measures the company's ability to meet its short-term obligations and is a comparison between current assets and current liabilities owned by the company. There is a significant difference in the liquidity ratio proxied by the current ratio before and after mergers and acquisitions, previous study claims that there is a significant difference in the company's financial performance after a merger or acquisition. However, other research found that current ratio has decreased insignificantly. Based on the description above, the first hypothesis in this study is:

H1 : There is a difference in current ratio before and after a merger or acquisition.

2. Differences in Total Asset Turn Over before and after a merger or acquisition

Total Asset Turn Over serves to measure the entire asset turnover. The higher the activity ratio, the better management performance in managing its assets is getting better. Previous study found that there is a significant difference in the asset management ratio proxied by TATO before and after mergers and acquisitions. However, other study claims that there is a significant difference after a merger or acquisition. Other study also experienced a significant decrease after a merger or acquisition. Based on the description above, the second hypothesis in this study is:

H2 : There is a difference in Total Asset Turn Over before and after a merger or acquisition.

3. Differences in Debt to Equity Ratio before and after a merger or acquisition

Debt to Equity Ratio is a ratio used to determine the amount of funds provided by borrowers with company owners. In the results of Gupta et al (2023), it is said that there is no significant difference in the debt management ratio proxied by the debt asset to ratio before and after mergers and acquisitions. Whereas other research said that DER has increased significantly after a merger or acquisition and Based on the description above, the third hypothesis in this study is:

H3 : There is a difference in Debt to Equity Ratio before and after a merger or acquisition.

4. Differences in Return on Assets before and after a merger or acquisition

Return on Assets is a ratio that shows the return on the number of assets used in the company. There is a short-term value creation for shareholders involved in M&A transactions on the acquiring side (Gigante et al., 2023). Meanwhile, study of Zimon et al (2021) found that M&A has a destructive effect on a company's ROA.Based on the description above, the fourth hypothesis in this study is:

H4 : There is a difference in Return on Asset before and after a merger or acquisition.

5. Differences in Earning per Share before and after a merger or acquisition

Earning per Share is to measure the success of management in achieving profits for shareholders. If the Earning per Share value is low, it means that management has not succeeded in increasing shareholder wealth (Mehrotra & Sahay, 2022), on the other hand, if the Earning per Share value is high, the welfare of shareholders increases. The fifth hypothesis in this study is:

H5 : There is a difference in Earning per Share before and after a merger or acquisition.

6. Difference in Non Performing Loan before and after a merger or acquisition

Non-performing loans (NPLs) should be an element in seeing the efficiency of a bank (Fukuyama et al., 2022). The results of Elekdag et al., (2020) indicate that there is a significant difference in NPL, and Natsir et al (2019) also said there is a significant difference in the NPL ratio before and after mergers and acquisitions. NPLs can be detrimental to the health of banks (Vyshnevskyi & Sohn, 2023)

H6 : There is a difference in Non Performig Loan before and after a merger or acquisition.

Conceptual Framework
Based on the background and theories described above, the research framework can be described as follows:

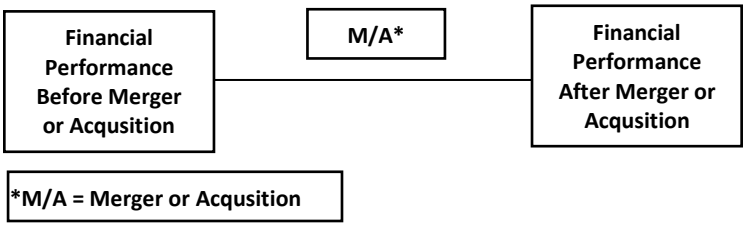

Figure 1. Conceptual Framework

2. Methods
This research uses quantitative methods. This study uses a comparative research design research approach. The population in this study are all banking companies that are listed and have Go Public on the Indonesia Stock Exchange (IDX), totaling 45 companies. The samples in this study are banking companies listed and already Go Public on the Indonesia Stock Exchange (IDX) that carried out merger or acquisition actions in 2019, and the financial statements used are financial statements 2 years before the merger or acquisition, namely 2017 and 2018, and financial statements 2 years after the merger or acquisition, namely 2020 and 2021. The sample selection uses purposive sampling method, which is a non-random sampling technique with several criteria, which are:

1. The company is a banking company that carried out merger or acquisition actions in 2019 in Indonesia and is listed on the Indonesia Stock Exchange.
2. Banking companies that publish annual reports and financial reports consistently during the 2 years before and 2 years after the merger or acquisition activities.

Based on the sample criteria above, the sample in this study of companies listed on the Indonesia Stock Exchange (IDX) in 2019 that carried out mergers or acquisitions was 6 companies with the following details:

Table 1. Sample of the study

No	Code	Company	Description
1	AGRS	PT. BANK IBK INDONESIA, Tbk	Merger
2	BTPN	PT. BANK BTPN, Tbk	Merger
3	BBRI	PT. BANK RAKYAT INDONESIA, Tbk	Acquisition
4	BBTN	PT. BANK TABUNGAN NEGARA, TBK	Acquisition
5	BDMN	PT. BANK DANAMON INDONESIA, Tbk	Merger
6	DNAR	PT. BANK ONE INDONESIA	Merger

This study uses secondary data. The research data is in the form of financial reports and annual reports collected from the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id and related company websites. To measure financial performance, several ratios are used, namely Current Ratio, Total Asset Turnover, Debt to Equity Ratio, Return on Asset, Earning Per Share, and Non Performing Loan. The definition and formula of financial ratios can be seen in the following table :

Table 2. Measurement of Financial Performance

Variable	Definition	Formula
Current Ratio (CR)	CR is used to measure the company's ability to pay short-term obligations or debts that are due immediately when collected.	$CR = \frac{\text{Current Asset}}{\text{Current Liablity}}$
Total Asset Turnover (TATO)	TATO is used to measure the turnover of all company assets, calculated by dividing revenue by total assets.	$TATO = \frac{\text{Revenue}}{\text{Asset}}$
Debt to Equity Ratio (DER)	DER is used to value debt with equity. By dividing total debt by total equity.	$DER = \frac{\text{Liablity}}{\text{Equity}}$
Return on Asset (ROA)	ROA is used to show the return on the amount of assets used in the company.	$ROA = \frac{\text{Net Profit}}{\text{Asset}}$
Earning Per Share (EPS)	EPS is used to measure the success of management in realizing profits for shareholders.	$EPS = \frac{\text{Net Profit}}{\text{Outstanding shares}}$
Non-Performing Loan (NPL)	NPL is used to show the amount of non-performing loan risk that is in a bank.	$NPL = \frac{\text{Bad Debt}}{\text{Credit Given}}$

This research was analyzed using statistical tests with the SPSS version 25 application. The data analysis methods in this study are descriptive statistics, normality test, and wilcoxon signed test.

3. Results

3.1 Descriptive Statistic Analysis

Descriptive statistics in this study are used to provide information about the variables in the study related to mean, standard deviation, maximum value, and minimum value of each variable for a period of 2 years before and 2 years after making a merger or acquisition.

Table. 3 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CR_BEFORE	12	0,44	1,47	1,10	0,31
CR_AFTER	12	0,94	1,57	1,24	0,19
TATO_BEFORE	12	0,08	0,15	0,11	0,02
TATO_AFTER	12	0,04	0,12	0,08	0,03
DER_BEFORE	12	3,45	11,06	5,93	2,44
DER_AFTER	12	1,49	17,07	5,94	5,19
ROA_BEFORE	12	-0,77	0,03	-0,07	0,23
ROA_AFTER	12	-0,02	0,02	0,01	0,01
EPS_BEFORE	12	-0,06	3,66	0,98	1,23
EPS_AFTER	12	-0,16	1,95	0,32	0,54
NPL_BEFORE	12	0,00	0,50	0,06	0,13
NPL_AFTER	12	0,01	0,50	0,09	0,16
Valid N (listwise)	12				

3.2 Normality Test

The Normality Test aims to test to see a normal distribution of the research data. The significant value used in this study is 0.05. Data will be called normally distributed if the significance value is >0.05.

Table 4. The Normality Test Result

Financial Performance	Periode	*Asymp. Sig.*	a	Conclusion
Current Ratio (CR)	Before	0,000	0,05	Not Normally distributed.
	After	0,200	0,05	Normally distributed
Total Asset Turnover (TATO)	Before	0,200	0,05	Normally distributed
	After	0,125	0,05	Normally distributed
Debt to Equity Ratio (DER)	Before	0,102	0,05	Normally distributed
	After	0,000	0,05	Not Normally distributed.
Return on Asset (ROA)	Before	0,000	0,05	Not Normally distributed.
	After	0,007	0,05	Not Normally distributed.
Earning Per Saham (EPS)	Before	0,016	0,05	Not Normally distributed.
	After	0,001	0,05	Not Normally distributed.
Non-Performing Loan (NPL)	Before	0,000	0,05	Not Normally distributed.
	After	0,000	0,05	Not Normally distributed.

The table above shows that samples with normal distribution are 33% of the total, while samples with not normal distribution are 64%. The results of the financial ratio data above show that the distribution is not normal, so the Wilcoxon Signed Test will be used to test the hypothesis.

3.3 Wilcoxon Signed Test

This study uses the Wilcoxon signed test to test the average difference between samples before and after a merger or acquisition. Based on the results of calculations with the SPSS version 25 program, the following results were obtained:

Table 5. Test of Hypotheses

Financial Rasio	Z	*Sig. (2-tailed)*	Conclusion (α = 0,05)
Current Rasio (CR)	-0,561	0,575	H1 Rejected
Total Asset Turnover (TATO)	-2,416	0,016	H2 Accepted
Debt to Equity Ratio (DER)	-0,760	0,480	H3 Rejected
Return on Asset (ROA)	-0,431	0,667	H4 Rejected
Earning Per Share (EPS)	-2,904	0,004	H5 Accepted
Non-Performing Loan (NPL)	-0,769	0,442	H6 Rejected

The table above shows that there are 2 ratios that have significant differences, namely the TATO and EPS ratios which have a significant value below 0.05. The CR, DER, ROA and NPL ratios have a significant value above 0.05 so there is no significant difference in these ratios.

4. Discussion

4.1 Current Ratio Analysis

Based on output of SPSS version 25, the wilcoxon signed test of financial ratios, CR shows the Sig. (2-tailed) result higher than the significance of 0.575 > 0.05 and the calculated Z value is smaller than the Z table value, it is -0.561 < -1.645. This shows that H1 is rejected because there is no significant average difference in CR before and after a merger or acquisition when viewed from the company's ability to pay off its obligations.

4.2 Turn Asset Turnover Analysis

Based on output of SPSS version 25, the wilcoxon signed test of financial ratios, TATO shows the results of Sig. (2-tailed) is smaller than the significance, it is 0.016 < 0.05 and the calculated Z value is higher than the Z table value, it is -2.416 > -1.645. This shows that H2 is accepted because there is a significant average difference in TATO before and after a merger or acquisition when viewed from the company's ability to generate revenue based on its assets.

4.3 Debt to Equity Ratio Analysis

Based on SPSS output of the wilcoxon signed test of financial ratios, DER shows the Sig. (2-tailed) result is higher than the significance, it is 0.480 > 0.05 and the calculated Z value is smaller than the Z table value, it is -0.760 < -1.645. This shows that H3 is rejected because there is no significant average difference in DER before and after a merger or acquisition when viewed from the company's ability to meet fixed obligations.

4.4 Return On Asset Analysis

Based on SPSS output of the wilcoxon signed test of financial ratios, ROA shows the Sig. (2-tailed) result is higher than the significance, it's 0.667 > 0.05 and the calculated Z value is smaller than the Z table value, it's -0.431 < -1.645. This shows that H4 is rejected because there is no significant average difference in ROA before and after a merger or acquisition when viewed from the company's ability to generate profits.

4.5 Earning Per Share Analysis

Based on SPSS output of the wilcoxon signed test of financial ratios, EPS shows the Sig. (2-tailed) result is smaller than the significance, it's 0.004 <0.05 and the calculated Z value is higher than the Z table value, namely -2.904> -1.645. This shows that H5 is accepted because there is a significant average difference in EPS before and after a merger or acquisition when viewed from the company's ability to provide benefits to managers and shareholders.

4.6 Non Performing Loan Analysis

Based on SPSS output of the wilcoxon signed test of financial ratios, NPL shows the Sig. (2-tailed) result is smaller than the significance, it's 0.442> 0.05 and the calculated Z value is higher than the Z table value, -0.769 < -1.645. This shows that H6 is rejected because there is no significant average difference in NPL before and after a merger or acquisition when viewed from the company's ability to measure the risk of failure to return credit by debtors.

5. Conclusion

This study aims to find out the differences in financial performance before and after carrying out merger or acquisition activities in banking companies listed on the Indonesia Stock Exchange. Based on the results of descriptive statistical tests, the average CR has increased after a merger or acquisition by 0.1. The results of the Wilcoxon signed test said that there is no significant difference in CR before and after making mergers or acquisitions in banking companies with significance results (0.575> 0.05). In this study it proven that there is a no significant difference in the CR after carrying out the merger or acquisition action. So that (H1) is rejected. The average TATO decreased after a merger or acquisition by 0.3. The Wilcoxon signed test results said that there is a significant difference in TATO before and after a merger or acquisition in banking companies with a significance result (0.016 < 0.05). In this study it proven that there is a significant difference in the total asset turnover after carrying out the merger or acquisition action. So that (H2) is accepted. Based on the results of descriptive statistical tests, the average DER increased after a merger or acquisition by 0.1. The results of the Wilcoxon signed test state that there is no significant difference in DER before and after a merger or acquisition in banking companies with a significance result (0.480 < 0.05). In

this study it is not proven that there is a significant difference in the DER ratio after carrying out the merger or acquisition action. So that (H3) is rejected. The average ROA increased after the merger or acquisition by 0.08. The results of the Wilcoxon signed test said that there is no significant difference in ROA before and after making mergers or acquisitions in banking companies with a significance result of 0.667 > 0.05. In this study it is not proven that there is a significant difference in the return on asset after carrying out the merger or acquisition action. So that (H4) is rejected. Based on the results of descriptive statistical tests, the average EPS decreased after a merger or acquisition by 0.66. The results of the Wilcoxon signed test said that there is a significant difference in EPS before and after making mergers or acquisitions in banking companies with a significance result of 0.004 < 0.05. In this study it is proven that there is a significant difference in the earning per share after carrying out the merger or acquisition action. So that (H5) is accepted. The average NPL has increased after a merger or acquisition by 0.03. The results of the Wilcoxon signed test said that there is no significant difference in NPL before and after a merger or acquisition in banking companies with a significance result (0.442> 0.05). In this study it is not proven that there is a significant difference in the non performing loan after carrying out the merger or acquisition action. So that (H6) is rejected.

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