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LIQUIDITY, SOLVENCY AND PROFITABILITY ANALYSIS COMPANIES BEFORE AND AFTER ACQUISITION

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Abstract

This study aims to analyze the Liquidity, Solvency and Profitability of the company before and after the acquisition. This research uses secondary data in the form of annual financial statements of companies listed on the Indonesia Stock Exchange in 2012-2020. The number of companies in this study is 33 companies with sampling using purposive sampling techniques with certain criteria in accordance with the research objectives. The data analysis methods used in this study are descriptive statistical methods and normality tests. Test the hypothesis in this study using the Wilcoxon Signed Rank Test. The results of this study show that the Liquidity ratio, namely Current Ratio (CR) and Quick Ratio (QR) and Solvency ratio, namely Debt to Equity Ratio (DER) and Debt to Assets Ratio (DAR) show that there is no significant difference before and after the acquisition. Then the Profitability ratio, namely Return on Equity (ROE) and Return on Assets (ROA) shows that there is a significant difference before and after the acquisition, but the difference actually shows a significant decline in the company's financial performance after the acquisition.

Keywords: ***Acquisition, Performance, Financial Ratios, Company***

INTRODUCTION

Competition in the business world today is increasingly competitive, especially amidst the strong current of globalization and free competition. Apart from opening up opportunities, this condition also opens up competition between businesses to become increasingly tighter, because the boundaries for economic development are increasingly open. This requires companies to adopt policies that can win competition in the business world to develop their business and maintain business continuity. One strategy that a company can undertake is business expansion *or* a *business combination* . This is done to gain control over the assets and operations of other companies as well as expand market share, secure raw material and product distribution channels and reduce competitors. . According to Dharmasetya and Sulaimin (2009) in Annisa and Prasetiono (2010), one form of business combination that has often been carried out in the last two decades is acquisition, where this strategy is seen as a way to achieve several goals that are more economical and long-term. According to Sudana (2011:238) an acquisition is a merger of two companies in which the acquiring company buys some of the shares of the company being acquired, so that management control of the acquired company is transferred to the acquiring company, while the two companies each continue to operate as an independent legal entity. According to Baker, et al, (2013:6) the acquisition itself is a business combination where the company being taken over continues to operate as a separate legal entity and most of the shares are usually owned by the company taking over. This form will create a parent and subsidiary relationship.

If we take a closer look at the acquisition phenomenon that occurs in Indonesia, these corporate actions tend to increase every year. In 2020, when Indonesia faced *the Covid-19 pandemic*, corporate actions also increased. According to Guntur S. Saragih as Commissioner of the Business Competition Supervision Commission (KPPU), there were more than 132 merger and acquisition notifications, this has exceeded the number of notifications in 2019 which was recorded at around 120 notifications. Chairman of the National Association of Indonesian Entrepreneurs (Apindo) in the field of Property and Economic Areas, Sanny Iskandar, said that the company carried out acquisitions as a strategy to survive in the midst of the Covid-19 pandemic and the trend of decreasing value or assets during the pandemic also contributed to increasing the activity of corporate acquisitions (kontan.co .id, 2020). This corporate action carried out by a number of issuers in the capital market almost reached IDR 100 trillion, namely IDR 89.92 trillion throughout 2020 (bisnis.com, 2020)

To assess the success of the acquisition strategy implemented, it is done by analyzing the company's financial reports. Financial performance analysis aims to assess the implementation of the company's strategy in acquisitions. Where performance is defined as the achievements achieved by financial management in achieving company goals to generate profits and increase company value (Kuncoro, 2014). Financial performance is an analysis carried out to see the extent to which a company has implemented financial implementation rules properly and correctly. Company performance is a description of the financial condition of a company which is analyzed using financial analysis tools, so that it can be known about the good and bad financial condition of a company which reflects work performance in a certain period. This is very important so that resources are used optimally in facing environmental changes (Fahmi, 2011:2).

THEORETICAL BASIS

Financial Management

As the development of human life and business activities of a company in the era of globalization also contributes to the development of financial management science, it is very interesting to discuss and research. According to Mustafa (2017:3) financial management explains several decisions that must be made, namely investment decisions, funding decisions or decisions to fulfill funding needs and dividend policy decisions. Then according to Fahmi (2015:2) financial management is a combination of science and art which discusses, studies and analyzes how a financial manager uses all company resources to search for data, manage funds and distribute funds with the aim of being able to provide profit or prosperity for shareholders and business sustainability for the company.

Work Management

According to Wibowo (2016:11) performance management is a management style in managing performance-oriented resources by carrying out open and continuous communication and creating a shared vision and an integrated strategic approach, to encourage the achievement of organizational goals. Medium According to Costello (1994) in Nursam (2017: 170) performance management is the basis and founding force behind all organizational decisions, work efforts and resource allocation. Then, according to Armstrong (2004) in Nursam (2017: 169), performance management is a means of getting better results from organizations, teams and individuals by understanding and managing performance within an agreed framework of goals, standards and attribute requirements.

Signaling Theory

One of The theory that explains the importance of performance measurement is signaling *theory* . According to Sari and Zuhrotun (2006:4), signaling theory *explains* why companies have the urge to provide financial report information to external parties. The company's urge to provide information is because there is information asymmetry between the company and outside parties where the company knows more information about the company and its future prospects than outside parties (investors, creditors). Lack of outside information about the company causes them to protect themselves by providing low prices for the company. Companies can increase company value by reducing asymmetric information. Wolk et all (2000) in Sari and Zuhrotun (2006) stated that one way to reduce asymmetric information is to provide signals to external parties, one of which is in the form of financial information that can be trusted and can reduce uncertainty regarding the company's future prospects.

Acquisitions will also be a signal to external parties where this policy will provide an overview of the strategic steps taken by the company's internal parties, so that signals of the company's future prospects can be captured by external parties as an effort to develop the business and maintain long-term survival and develop the company. towards corporate prosperity.

Business Merger

Company development can be carried out by means of business expansion *or* in the form of a *business combination* . Based on the statement of financial accounting standards (PSAK) No. 22 paragraph 08 of 1999 business combination means the unification of two or more companies (entities) become one economic entity because one company merges with another company or gains control over the assets and operations of another company (Indonesian Accountants Association, 1999). According to Dharmasetya and Sulaimin (2009) in Annisa and Prasetiono (2010), one form of business combination that has often been carried out in the last two decades is acquisition, where this strategy is seen as a way to achieve several goals that are more economical and long-term.

According to Baker et al (2013:9) there are three main forms of legal business mergers, including the following:

1. Legal merger (or simply called merger) is a business combination where only one company will survive from the various companies that merge and the other companies are dissolved.
2. Legal consolidation (or simply called consolidation) is a business combination where the two companies carrying out the business combination are immediately dissolved and the assets and liabilities of both companies are transferred to the newly formed company.
3. A stock acquisition occurs when one company acquires the voting shares of another company and the companies involved continue operating as separate, but related, legal entities. Because no company is being liquidated, the acquiring company treats the acquired ownership rights as an investment. In shares, the acquiring company does not need to acquire all the other company's shares to gain control.

Understanding Acquisition

An acquisition is the purchase of a company by another , larger company. The purchased company follows the operations of the purchasing company (Utari, et al, 2014:280). According to Sudana (2011:238) an acquisition is a merger of two companies in which the acquiring company buys some of the shares of the company being acquired, so that management control of the acquired company is transferred to the acquiring company, while the two companies each continue to operate as an independent legal entity. Then Brealey, Myers, & Marcus (1999) in Sundari (2016), define acquisition as, "The takeover of *a* company by buying shares or assets of the company, and the company purchased remains there." Meanwhile, according to the Statement of Financial Accounting Standards (PSAK) No. 22, the meaning of acquisition is: "The takeover of company ownership by the acquirer , resulting in the transfer of control over the company being taken over (*acquirer*)."

Acquisition Illustration

To gain a more detailed understanding of the acquisition. The following is an illustrative image of the acquisition:

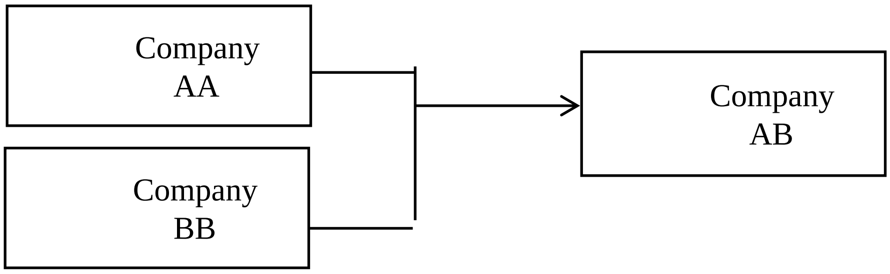

Figure 2.1 Illustration of Acquisition
Source: Baker et al (2013:9)

In the illustration above, it can be seen that the company involved in the legal acquisition still exists and operates independently but there has been a transfer by the acquirer. A corporate action that buys most of the shares of another company , so that the buying company gains control (creating a parent and subsidiary relationship) over the company that has bought most of the shares.

Conceptual Framework

The research conceptual framework functions as a guide to determine the direction and objectives of the research. In this research, a test was carried out on the financial performance of companies that made acquisitions between 2012 and 2017. The following is the research conceptual framework:

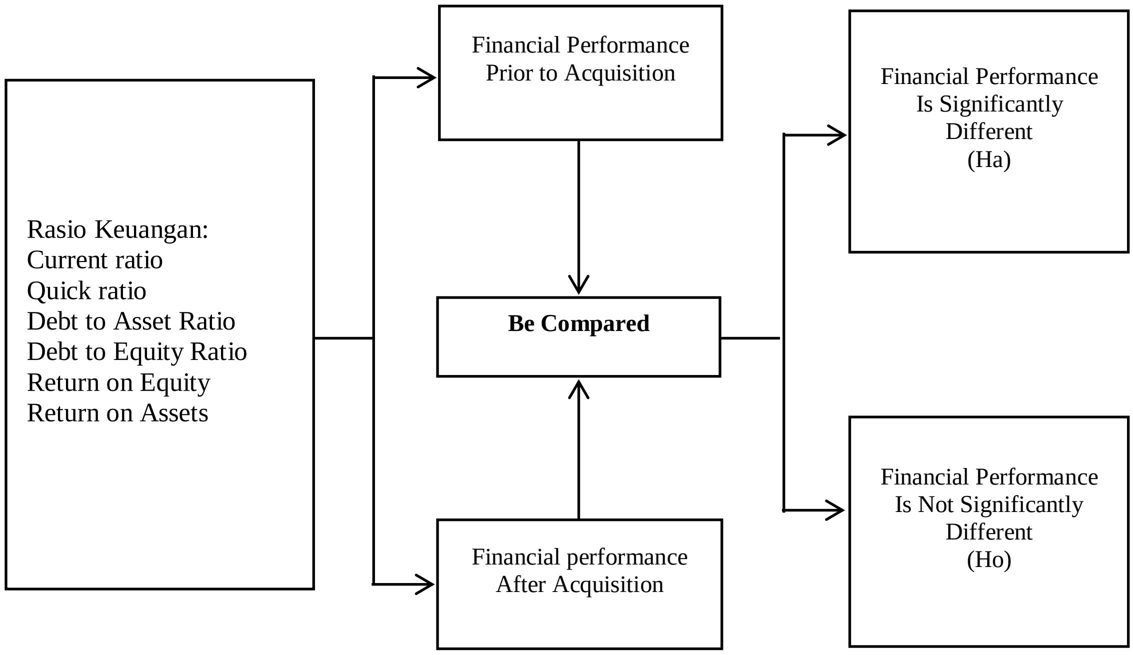

Figure 2.2 Conceptual Framework

Research Methods

Research Location and Time

This research was conducted on companies that made acquisitions and were listed on the Indonesia Stock Exchange in 2012-2020 by examining the financial statements two years before and two years after the acquisition reported by these companies.

Research Population and Sample

The population in this research is all companies that made acquisitions and were listed on the Indonesia Stock Exchange for the 2012-2020 period. In this research, a sample of 33 companies was obtained which was determined using a sampling technique using the *purposive sampling method* . According to Sugiyono (2009:81), *purposive sampling method* is determining samples based on suitability of certain characteristics and criteria.

The criteria used in this research include:

1. Public companies listed on the Indonesian Stock Exchange and carrying out acquisitions between 2012-2020.
2. Publish complete financial reports for the two years before the acquisition and two years after the acquisition with the period ending on December 31.
3. Do not carry out acquisition activities more than once during the observation period, namely during the two years before the acquisition and two years after the acquisition.
4. It is not a company operating in the banking sector.

Data collection technique

In the process of collecting the required data, the author uses the following data collection techniques:

1. Documentation

   Data collection techniques are carried out by collecting data and information based on data sources. In carrying out the document method, research investigates written objects such as books, financial reports, documents, and so on.

2. Literature review

   In this research, the literature study method was also used in order to collect theories or literature that can be used as a basis related to the problem being researched. According to Nazir (2013:93) library study is a data collection technique by conducting review studies of books, literature, notes and reports that are related to the problem being solved.

Definition of Operational Variables

In this research, the variable used to measure the financial performance of companies making acquisitions is the liquidity ratio which consists of: *Current Ratio* and *Quick Ratio.* Solvency Ratios consist of: *Debt to Equity Ratio* and *Debt to Assets Ratio* . Profitability ratios consist of: *Return on Equity* and *Return on Assets* .

Liquidity Ratio

The Liquidity Ratio shows the company's ability to meet short-term obligations (Gozali and Panggabean, 2019). In this research, the liquidity ratios used are *the Current Ratio* and *Quick Ratio.*

a. *Current Ratio* (CR)

Current ratio (*current ratio*) is a ratio to measure the company's ability to pay short-term obligations or debts that are immediately due when they are collected in full (Kasmir, 2015: 134). According to Kasmir (2015:135) The formula for finding the *current ratio* can be used as follows:

$$Current\ Ratio = \frac{\text{Aktiva lancar } (Current\ Assets)}{\text{Utang Lancar } (Current\ Liabilities)} \text{ x } 100\%$$

b. *Quick Ratio* (QR)

Quick Ratio is a ratio used to measure a company's ability to pay current debts using the current assets (other than inventory) it owns. According to Sudana (2015:23-26) the formula for finding the current ratio or *Quick Ratio* can be used as follows.

$$Quick\ Ratio = \frac{\text{Aktiva lancar} - \text{Persediaan}}{\text{Utang Lancar}} \text{ x } 100\%$$

Solvency Ratio

Solvency ratios (*leverage* or *solvency ratios*) show the company's ability to fulfill all obligations, both short and long term (Gozali and Panggabean, 2019). In this research the Solvency Ratio consists of: *Debt to Equity Ratio* and *Debt to Assets Ratio* .

a. *Debt to Equity Ratio* (DER)

According to Kasmir (2015:157) it is a ratio used to assess debt versus equity. This ratio is found by comparing all debt, including current debt, with all equity. This ratio is useful for knowing the amount of funds provided by the borrower (creditor) and the company owner. In other words, this ratio functions to find out every rupiah of own capital used as collateral for debt. The *debt to equity ratio* formula is:

$$Debt\ to\ Equity\ Ratio = \frac{\text{Total Utang}}{\text{Total Ekuitas}} \text{ x } 100\%$$

b. *Debt to Assets Ratio*

Debt to Asset Ratio is a ratio used to measure how much all debt is guaranteed by company assets. Debt to asset ratio is calculated using the formula (Sudana, 2015:23-26):

$$Debt\ to\ Asset\ Ratio = \frac{\text{Total Utang}}{\text{Total Aset}} \text{ x } 100\%$$

Profitability Ratio

Profitability ratios *show* the level of reward or gain (profit) compared to sales or assets (Gozali and Panggabean, 2019). In this research, the profitability ratio consists of: *Return on Equity* and *Return on Assets.*

a. *Return on Equity* (ROE)

According to Kasmir (2015:204) it is a ratio to measure net profit after tax with own capital. This ratio shows the efficiency of using own capital. The higher this ratio, the better.

$$Return\ on\ Equity\ \text{(ROE)} = \frac{Earning\ After\ Tax\ \text{(EAT)}}{Shareholders\ Equity} \text{ x } 100\%$$

b. *Return on Assets* (ROA)

According to Hanafi and Halim (2016), the ratio measures a company's ability to generate profits using the total assets (wealth) owned by the company after adjusting for the costs to fund these assets.

$$Return\ on\ Assets\ (ROA) = \frac{Laba\ Bersih\ Setelah\ Pajak}{Total\ Assets} \text{ x } 100\%$$

Data Analysis Methods

To solve the problems in this research, the author uses a descriptive method using financial ratio analysis. The descriptive statistics used in this research are the average (*mean*) to describe the company's financial performance (*current ratio, debt to equity ratio, return on equity, return on assets*) 2 years before and 2 years after the acquisition. Descriptive statistics provide an overview or description of data seen from the average value (*mean*), standard deviation and variance using certain procedures.

In this research, a Normality Test was also carried out to analyze the data. The normality test is used to determine whether the data population is normally distributed or not. This test is usually used to measure ordinal, interval or ratio scale data. To detect data normality, it can be done using the *Kolmogorov-Smirnov Test method* (Priyatno.2010:71).

Hypothesis test

To test the hypothesis in this research, a different test was carried out . The difference test is used to evaluate certain *treatments* on the same sample in two different observation periods (Pramana, 2012:41) in Wajin (2019). In this research, the different test used is a non-parametric test, namely *the Wilcoxon Signed Rank Test* to analyze the pre-post or before and after research model.

Research Results and Discussion

Research Descriptive Statistics

The descriptive method provides an overview or description of the variables in the research. Below is a table of descriptive statistical test results for Liquidity Ratios (*Current Ratio* and *Quick Ratio*), Solvency Ratios (*Debt to Equity Ratio* and *Debt to Assets Ratio*) and Profitability Ratios (*Return on Equity* and *Return on Assets)* before and after the acquisition.

Table 4.1
Descriptive Statistics Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
CR Before Acquisition	66	,343	7,288	1.90861	1.231630
CR After Acquisition	66	,236	10,254	1.91412	1.717027
QR Before Acquisition	66	,118	6,402	1.45033	1.126828
QR After Acquisition	66	,226	8,982	1.36614	1.457343
DER Before Acquisition	66	,076	6,305	1.02756	1.023208
DER After Acquisition	66	,071	3,701	1.00938	,776452
DAR Before Acquisition	66	,071	,863	,43247	,187409
DAR After Acquisition	66	,066	,787	,43923	,185843
ROE Before Acquisition	66	-,023	,486	,14920	,092519
ROE After Acquisition	66	-,219	,318	,10362	,094872
ROA Before Acquisition	66	-,012	,247	,08570	,058453
ROA After Acquisition	66	-,124	,188	,05926	,059750
Valid N (listwise)	66				

Source: SPSS 25 output

Research Normality Test

The normality test is used to determine whether the data population is normally distributed or not. This test is usually used to measure ordinal, interval or ratio scale data.
So the method used is non-parametric statistics. Based on the results of data normality testing, it can be shown in table 4.2 below.

Table 4.2
Normality Test Results

Test Of Normality							
Financial performance		**Kolmogorov Smirnov**			**Shapiro-Wilk**		
		Statistics	Df	Sig.	Statistics	df	Sig.
Current Ratio	Before Acquisition	,191	66	,000	,818	66	,000
	After Acquisition	,194	66	,000	,669	66	,000
Quick Ratio	Before Acquisition	,175	66	,000	,817	66	,000
	After Acquisition	,234	66	,000	,570	66	,000
Debt to Equity Ratio	Before Acquisition	,211	66	,000	,714	66	,000
	After Acquisition	,116	66	,027	,900	66	,000
Debt to Assets Ratio	Before Acquisition	,089	66	,200 *	,978	66	,296
	After Acquisition	,092	66	,200 *	,973	66	,165
Return on Equity	Before Acquisition	,049	66	,200 *	,966	66	,067
	After Acquisition	,114	66	,034	,966	66	,069
Return on Assets	Before Acquisition	,071	66	,200 *	,970	66	,111
	After Acquisition	,108	66	,053	,949	66	,009
*. This is a lower bound of the true significance.							
a. Lilliefors Significance Correction							

Source: SPSS 25 output

Research Hypothesis Testing Results

Through testing the data requirements that have been declared to be distributed or not normal, then hypothesis testing will use *the Wilcoxon Signed Rank Test* to determine whether there are differences in Liquidity Ratios (*Current Ratio* and *Quick Ratio*), Solvency Ratios (*Debt to Equity Ratio* and *Debt to Assets Ratio)* and Profitability Ratios (*Return on Equity* and *Return on Assets*) Companies Before and After Acquisition. The results of *the Wilcoxon Signed Rank Test* are presented as follows.

Liquidity Ratio

The results of *the Wilcoxon Signed Rank Test* for Liquidity Ratio are presented in table 4.3 as follows:

Table 4.3
***Wilcoxon Signed Rank* Difference Test Results Liquidity Ratio Test**

Ranks				
		N	Mean Rank	Sum of Ranks
CR After Acquisition - CR Before Acquisition	Negative Ranks	33 [a]	35.35	1166.50
	Positive Ranks	32 [b]	30.58	978.50
	Ties	1 [c]		
	Total	66		
QR After Acquisition - QR Before Acquisition	Negative Ranks	32 [d]	38.58	1234.50
	Positive Ranks	34 [e]	28.72	976.50
	Ties	0 [f]		
	Total	66		
a. CR After Acquisition < CR Before Acquisition				
b. CR After Acquisition > CR Before Acquisition				
c. CR After Acquisition = CR Before Acquisition				
d. QR After Acquisition < QR Before Acquisition				
e. QR After Acquisition > QR Before Acquisition				
f. QR After Acquisition = QR Before Acquisition				

Test Statistics [a]		
	CR After Acquisition - CR Before Acquisition	QR After Acquisition - QR Before Acquisition
Z	-,614 [b]	-,824 [b]
Asymp. Sig. (2-tailed)	,539	,410
a. Wilcoxon Signed Ranks Test		
b. Based on positive ranks.		

Source: SPSS 25 output

Solvency Ratio

In this research the Solvency Ratio consists of: *Debt to Equity Ratio* and *Debt to Assets Ratio* . Following are the results of different tests *Wilcoxon Signed Rank Test* Solvency Ratio:

Table 4.4
Results of *the Wilcoxon Signed Rank Difference Test* Solvency Ratio Test

Ranks				
		N	Mean Rank	Sum of Ranks
DER After Acquisition - DER Before Acquisition	Negative Ranks	33 [a]	32.73	1080.00
	Positive Ranks	33 [b]	34.27	1131.00
	Ties	0 [c]		
	Total	66		
DAR After Acquisition - DAR Before Acquisition	Negative Ranks	35 [d]	32.61	1141.50
	Positive Ranks	31 [e]	34.50	1069.50
	Ties	0 [f]		
	Total	66		
a. DER After Acquisition < DER Before Acquisition				
b. DER After Acquisition > DER Before Acquisition				
c. DER After Acquisition = DER Before Acquisition				
d. DAR After Acquisition < DAR Before Acquisition				
e. DAR After Acquisition > DAR Before Acquisition				
f. DAR After Acquisition = DAR Before Acquisition				

Test Statistics [a]		
	DER After Acquisition - DER Before Acquisition	DAR After Acquisition - DAR Before Acquisition
Z	-,163 [b]	-,230 [c]
Asymp. Sig. (2-tailed)	,871	,818
a. Wilcoxon Signed Ranks Test		
b. Based on negative ranks.		
c. Based on positive ranks.		

Source: SPSS 25 output

Profitability Ratio

The test results are different *Wilcoxon Signed Rank Test* for Profitability Ratios which consists of *Return on Equity* and *Return on Assets* is presented in the following table:

Table 4.5
***Wilcoxon Signed Rank* Difference Test Results Profitability Ratio Test**

Ranks				
		N	Mean Rank	Sum of Ranks
ROE After Acquisition - ROE Before Acquisition	Negative Ranks	50 [a]	35.03	1751.50
	Positive Ranks	16 [b]	28.72	459.50
	Ties	0 [c]		
	Total	66		
ROA After Acquisition - ROA Before Acquisition	Negative Ranks	50 [d]	34.48	1724.00
	Positive Ranks	14 [e]	25.43	356.00
	Ties	2 [f]		
	Total	66		
a. ROE After Acquisition < ROE Before Acquisition				
b. ROE After Acquisition > ROE Before Acquisition				
c. ROE After Acquisition = ROE Before Acquisition				
d. ROA After Acquisition < ROA Before Acquisition				
e. ROA After Acquisition > ROA Before Acquisition				
f. ROA After Acquisition = ROA Before Acquisition				

Test Statistics [a]		
	ROE After Acquisition - ROE Before Acquisition	ROA After Acquisition - ROA Before Acquisition
Z	-4.127 [b]	-4,575 [b]
Asymp. Sig. (2-tailed)	,000	,000
a. Wilcoxon Signed Ranks Test		
b. Based on negative ranks.		

Source: SPSS 25 output

CLOSING
Conclusion

Based on the results of the analysis and discussion regarding the analysis of liquidity, solvency and profitability of companies before and after the acquisition (case studies on companies listed on the Indonesian Stock Exchange in 2012-2017) several conclusions can be drawn as follows:

1. The liquidity ratio measured using the research variables *Current Ratio* (CR) and *Quick Ratio* (QR) shows a probability value greater than 0.05 so there is no significant difference before and after the acquisition.
2. The Solvency Ratio as measured using the research variables *Debt to Equity Ratio* (DER) and *Debt to Assets Ratio* (DAR) shows a probability value greater than 0.05, meaning that there is no significant difference in the solvency ratio before and after the acquisition.
3. The Profitability Ratio as measured by the research variables *Return on Equity* (ROE) and *Return on Assets* (ROA) shows a probability value smaller than 0.05, so there is a significant difference in the profitability ratio before and after the acquisition , however the difference actually indicates a decline in the company's financial performance significant after the acquisition. This is due to the average company's decline in utilizing its capital and assets to generate company profits.
4. In the observation period of 2 years before and 2 years after the acquisition, overall the acquisition did not have a positive impact on the company's financial performance. This can be seen from the decrease in the Liquidity Ratio (*Quick Ratio*), the increase in the Solvency Ratio (*Debt to Assets Ratio*) and the significant decrease in profitability ratios (*Return on Equity* and *Return on Assets*). However, the acquisition had a

positive impact on the liquidity ratio (*Current Ratio*) which showed an increase, because on average companies experienced an increase in current assets (inventory) after the acquisition, although the increase was not significant. Then also the average value after acquisition of the *Debt to Assets Ratio* (DAR) variable also experienced a slight decrease. This condition shows that the average company after acquisition experiences a slight increase in capital used as debt collateral, although it is not significant.

Suggestion

Based on the research conducted, the researcher provides the following suggestions:

1. Companies that will carry out acquisitions must carry out a careful and in-depth study of the acquisition target company so that after the acquisition there is synergy to provide a positive financial performance impact for the company.
2. For future researchers, the researcher suggests increasing the observation period and variables used as well as analyzing company performance before and after the acquisition by adding non-economic factors such as human resources, technology and other factors.

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