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INTEGRATED ACQUISITION IMPROVES TARGET FIRMS PERFORMANCE

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Abstract: *The aim of this paper is to study the financial performance between pre and post acquisition of Indonesia finance company industry over the period of 2002-2011. The acquisition can be categorized into 3 categories based on the acquirer. The acquirer can be categorized into banking related acquirer, automotive related acquirer, and unrelated or independent acquirer. The banking industry which provides majority of funding, has made finance companies as part of their integration business model. The automotive manufacturer and dealer which provides the products of financing, has the similar strategy. The acquisition of finance companies has reached more than 30 transactions from 2002 till 2012. We analyzed 7 micro key financial ratios (profitability, efficiency, growth, firm size, liquidity, solvability and risk). We use the non parametric Wilcoxonand the parametric Panel Data. The empirical results show that finance companies have better efficiency in operation, lower leverage, bigger size, and better growth in asset after the acquisition. However, the profit has decreased post the acquisition. There is no significant effect in liquidity ratio and provisioning ratio. All three categories have showed improved efficiency and firm size. Only forward integration has improved the profitability through an increase in the portfolio yield. In contrary, the unrelated acquisition has reduced the growth ability after the acquisition.*

Keywords :*Performance,Acquisition, Integration, Financial Industry, Panel Data*

JEL Classification Code : C33, G21, G34

1. INTRODUCTION

Indonesia finance company industry grew from IDR 37 trillion in 2001 to IDR 221 trillion in 2010 with compounded annual growth rate (CAGR) of 122%. The contribution of the amount of financing from finance companies to Indonesia GDP reached 3.59% (Nuryartono 2012), and the contribution of the amount of financing by finance companies to Indonesia total national credit reached 12.5% in 2011.

Finance company industry is highly dependent on two other industries:banking industry and automotive industry. Banking industry is the major source of funding of finance companies, ranges from 78% to 91% in the last eight years. This dependence results in a lot number of finance companies are acquired by banks.

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Out of the top ten banks, there were six banks conducted the acquisition of finance companiesin the last ten years. Banking industry, especially big banks, needs finance companies as a source to grow.

Financecompany industry is an industry which demand is a derived demand (Hutabarat, 2012). Financing must have an underlying transaction or product, there must not be any financing or loans provided without real transaction of goods or services.

Along with the increased level of competition, finance companies will consider conducting an alliance or grow independently. When doing an alliance, finance companies can choose to make the backward alliance (backward integration) with banking industry or forward alliance (forward integration) with automotive industry.

Backward integration is a resource-based strategy. Financing companies' dependence on sources of fund becomes important in competition. A finance company that has a bank as the holding company, will be more competitive (captive funding).

Forward integration is a market-driven strategy. By conducting forward integration, finance companies will make the served products or markets focus (captive market).

However, integration also provides limitations to financing companies. Finance companies become dependent on a particular party (the captive parent); dependence on the parent company for financial resources or the type of market served. Dependence on the parent company will reduce the competitive level of finance companies.

Research is conducted on the performance difference between pre and post the acquisition occurred. These performance measurements are also grouped into three categories based on the acquirers: banking industry, automotive industry, and independent. This study becomes unique as it examines the integration between the three industries namely finance company industry, banking industry, and automotive industry. Several researches have been conducted before, for example Cornet and Tehranian (1992), Berger (2000), Worthington (2001), Campa (2005), Zhang (2006), Chang and Ariff (2006), Becalli (2007), Becalli et al. (2007) Pasiouras (2008), Hagendorff (2009), Coeurdacier (2009), and Correa (2009).

Cornet (1992) found that the merger between banking or finance industries generate very high return on asset, because of the ability of new entities in attracting savings from community and distribution of lending. In addition, the merger also results in better productivity and greater asset growth.

Berger (2000) found that mergers and acquisitions will be able to increase revenue and cost efficiency. Aggarwal (2006) found that banks with better

profitability will be able to deliver higher value to shareholders through mergers and acquisitions. Performance improvement occurs after three years after the merger transaction.

Cornet and Tehranian (1992) conducted a study on 134 transactions of mergers and acquisitions in 1990-2000. This study found that the operational improvements occurred after the mergers and acquisitions. Banks with large scale will be larger. Banking industry is better to conduct focused mergersthan diversified ones. Mergers and acquisitions with geography focus is better than the ones with diversified geography. The merged banks will have increased revenue and lower operational cost.

Worthington (2001) conducted a study on lending institutions in Australia from 1993-1997, which found that mergers increase the efficiency of technical and industrial scale.

Campa (2005) examined the results of banking mergers and acquisitions in the European Union in 1998-2005. The merged banks have better performance two years after mergers and acquisitions. Return on Equity increase by 7% compared to before mergers and acquisitions. Cost efficiency also increase after mergers and acquisitions.

Becalli *et al.* (2007) found that mergers and acquisitions in European banking increasecost efficiency and lowering return on equity, return on cash flow, and profit efficiency. The research was carried out on 714 merger and acquisition transactions in Europe in 1991-2005.

In contrast, Pasiouras (2008) suggested that the acquisition does not increase profit efficiency, cost efficiency, liquidity and capital strength in the Greek banking industry. Increased market share, increased number of branches, and total asset growth are not related to the acquisition. The research was conducted in 1998-2002 with a sample of 24 banks with nine banks involved in acquisitions.

Becalli (2008) found that a decline occurred in the performance of banks after mergers and acquisitions. Performance improvement occurs six years after the mergers and acquisitions.

Correa (2009) found that the performance of the acquired banks is not positive in the first two years, due to the increased overhead costs and reduced margins.Coeurdacier (2009) found that mergers and acquisitions in the service industry, also did not increase as significantly as the manufacturing industry, based on the research in the European Union. Services industry, especially financial, has stricter rules than other industries.

Zhang (2006) found that merger did not show any significant increase in profitability in 1999-2005. Changes occur only in increased efficiency due to the larger scale because of merger.

Chang and Ariff (2006) found that there is no change to the companies engaged in mergers and acquisitions in Australia. The research was conducted in 1993-2000 with a three-year period before and after mergers and acquisitions occur.

Hagendorff (2009) obtained results that European banks focus on cutting costs, especially labor costs and the cost of lending. American banks focus more on increasing revenue and fee-based revenues in the period after acquisitions. The research was conducted from 1996 to 2004 on the banking industry in Europe and Switzerland with total assets of at least $ 100 million.

Although there are already numerous researches concerning the pre and post performance of an acquisition, there is no conclusive result yet. Therefore, it is important to conduct a research on this topic, especially in a specific industry with acquirers from related industry.

This paper will study the pre and post acquisition performance of finance company industry in Indonesia during 2001-2011. The performance measurement will be based on four categories, which are

1. Pre and post acquisition performance for all type of acquisition
2. Pre and post acquisition performance with the acquisition by backward acquirer (banking industry)
3. Pre and post acquisition performance with the acquisition by forward acquirer (automotive industry)
4. Pre and post acquisition performance with the acquisition by the unrelated acquirer

The financial measurementsare grouped into seven aspects, which are profitability, efficiency, solvency, liquidity, size, growth and portfolio quality.

The rest of the paper will be organized as follows, after the introduction, we describe the data and methodology in Section 2, followed by the result and discussion in Section 3. Finally, Section 4 gives summary and conclusion remarks.

2. METHODOLOGY, VARIABLE AND DATA

2.1. Methodology

2.1.1. Dummy Variable Regression

Parametric test model in this studyis developed from the dummy regression models by Vennet (2002). The variables in this study refer to seven measurements on profitability, size, efficiency, liquidity, solvency, growth, and asset quality. The five ratios were developed by Healey *et al.* (1992), Cornetand Tehranian (1992, 2004) and Cheng (2006). This study adds in the variable of growth developed by Mandelker (1972) and a variable Size developed by Vennet (2002). These variables

are adapted and developed into seven measurement ratio groups with nineteen research variables. This development is adjusted to finance industry ratio.

Integrated companies are coded differently from independent companies (DA = dummy). DA code forintegrated company=1, code for independentcompany =0. Financial performance of the integrated and independent companies is studied based on the ratioof growth, efficiency ratio, solvency ratio, liquidity ratio, size ratio, profitability ratios, and asset quality.

Each of the financial indicators is tested parametrically and non-parametrically. Parametric tests are conducted by dummy regression towards each variable by the equation as follow :

Model 1a :

$$Y_{it} = a + b_1 DA_{it} + \varepsilon \quad (1)$$

Model 1b :

$$Y_{it} = a + b_1 DA_{it} + b_2 FSI_{it-1} + b_3 TAGR_{it-1} + \varepsilon \quad (2)$$

Where

Y_{it} = EXIR, ROA, ROE, NPM, PROV, LEV, PATA, LIQ, EXPA, REPA, LITA, FSI, TAGR, PAGR, NIGR, REGR, EXGR

DA = dummy alliance, 1 for pre acquisition

0 for post acquisition

FSI = Firm Size

TAGR = Total Asset Growth

Hypothesis:

1. There were no differences between the pre and the post acquisition financial performances of finance companies
2. There were no differences between the pre and the post acquisition financial performances of finance companies acquired by backward or banking industry
3. There were no differences between the pre and the post acquisition financial performances of finance companies acquired by forward or automotive industry
4. There were no differences between the pre and the post acquisition financial performances of finance companies acquired by unrelated party.

Financial indicators to be tested in this study that profitability ratio, efficiency ratio, growth ratio, liquidity ratio, solvability ratio, asset quality ratio and firm size.

2.1.2. The Non-Parametric Wilcoxon Test

This test aims to test the characteristics between the two groups of the same sample. Wilcoxon test is the same as t test. This test looks for differences between couples which are tested and sorted from the smallest to the largest. Wilcoxon test formula is

$$Mean = \mu T = \frac{n(n+1)}{4} \tag{3}$$

Formula :

$$Z = \frac{T - \mu T}{\sigma T} \tag{4}$$

Non-parametric test performed with Wilcoxon Test

Using $\alpha = 5\%$

Based on the t-statistics and p-value, there will be variables significantly different between before and after the alliance.

Different test on the variables above use the following hypothesis:

Non-parametric test

Ho: the value of the coefficient estimation of difference (ρ) = 0

Ha: the value of the coefficient estimation of difference (ρ) ≠ 0

Test criteria:

If the P-value < α, reject Ho

If the P-value > α, accept Ho

2.2. Variable and Measurement

The five ratios were developed by Healey *et al.* (1992), Cornet and Tehranian (1992, 2004) and Cheng (2006). This study adds in the variable of growth developed by Mandelker (1972) and a variable of size developed by Vennet (2002). These variables are adapted and developed into seven measurement ratio groups with 17 research variables as showed in Table 1.

2.3. Data

This study uses secondary data collected from various institutes and official literature which include published financial data of each company on various mass media, annual reports for public companies, research reports from various securities, research reports from magazines and Bloomberg database particularly regarding mergers and acquisition transactions.

Table 1
Financial Ratios

Growth Ratio	*Definition*
Revenue Growth	$REGR = \frac{Revenue(t) - Revenue(t-1)}{Revenue(t-1)}$
Total Asset Growth	$TAGR = \frac{Total\ Asset(t) - Total\ Asset(t-1)}{Total\ Asset(t-1)}$
Net Income Growth	$NIGR = \frac{Net\ Income(t) - Net\ Income(t-1)}{Net\ Income(t-1)}$
Productive Asset Growth	$PAGR = \frac{Productive\ Asset(t) - Productive\ Asset(t-1)}{\mathrm{Pr}oductive\ Asset(t-1)}$
Efficiency Ratio	
Expense Income Ratio	$EXIR = \frac{Expense}{Income}$
Expense to Productive Assets	$EXPA = \frac{Expense}{Productive\ Asset}$
Expenses Growth	$EXGR = \frac{Expense(t) - Expense(t-1)}{Expense(t-1)}$
Productive Assets To Total Assets	$PATA = \frac{Productive\ Asset}{Total\ Asset}$
Solvency Ratio	
Liabilities Total Assets	$LITA = \frac{Total\ Liabilities}{Total\ Asset}$
Leverage Ratio	$LEV = \frac{Total\ Liabilities}{Total\ Equity}$
Asset Quality	
Provisioning Policy	$PROV = \frac{Total\ Provisioning}{Total\ Productive\ Asset}$
Size Ratio	
Firm Size	$FSI_t = \ln Total\ Asset\ (t)$ $FSI_{t-1} = \ln Total\ Asset\ (t-1)$

Liquidity Ratio	
Liquidity Ratio	$LIQ = \frac{Total\ Productive\ Asset}{Total\ Liabilities}$
Profitability Ratio	
Return on Assets	$ROA = \frac{Net\ Income}{Total\ Asset}$
Return on Equity	$ROE = \frac{Net\ Income}{Total\ Equity}$
Net Profit Margin	$NPM = \frac{Interest\ Income - Cost\ of\ Fund - Expenses}{Interest\ Income}$
Revenue to Productive Assets Ratio	$REPA = \frac{Revenue}{Total\ Productive\ Asset}$

The dataare panel data consisting of cross section data from an observed period of the year 2001-2011. Some of the above data are obtained by using acalculation. Formulation of these variables is presented as in the table 1.

The data usedin this study is panel data. Panel data are two-dimensional data and the combination oftime dimension (time series) and individual company dimension (crosssection).

Allfinance companies in Indonesia that published the financial statements in 2001 to 2011 are the objects of the research. The number of companies registered with Bapepam LK is one hundred andninety-three companies. The sampling criteria are as follows:

1. Finance companies listed on the Capital Market and Financial Institution Supervisory Agency (Bapepam- LK) in 2011.
2. Finance companies that actively published financial statements during the period of 2001 to 2011.
3. Finance companies that announced the actions of corporate acquisitions during theperiod 2001 – 2011 invarious mass media channels orannual report.

The sampling unitis finance companies. The sampling frameis the list of companies listed on the Bapepam-LK and those that published financial statements for the period of 2001-2011. The sampling size is the total of all finance companies listed at the Bapepam-LK andmet the specified criteria. This study uses purposives ampling with judgment sampling. Samples must meet certain criteria established in this study.

3. RESULTS AND DISCUSSION

3.1. Financial Performance Pre and Post Acquisition

The results of data processing on several measurement ratio show significant differences of finance companies between before being acquired and after being acquired. Data processing uses non-parametric test (Wilcoxon) and parametric test (Pooled Least Squared).

Table 2
The Testing Results of Differences in Finance Companies' Financial Performance between Pre and Post Acquisitions

Equation	*Non Parametric (Wilcoxon)*		*Parametric (Pooled Least Squared)*			
			Model 1a		*Model 1b*	
EXIR (BOPO)	-1.594		-0.198	*	-0.039	
			(0.119)		(0.071)	
EXPA (BOPA)	-2.277	**	-0.205	***	-0.175	***
			(0.059)		(0.062)	
EXGR (BOGR)	-0.091		-3.728		0.223	
			(33.598)		(0.169)	
PATA	-2.869	***	0.089	***	0.059	***
			(0.196)		(0.019)	
ROA	-0.296		-0.025		-0.026	
			(0.030)		(0.033)	
ROE	-1.571		0.589		0.633	
			(0.401)		(0.457)	
NPM	-1.002		-0.022		-0.014	
			(0.071)		(0.079)	
REGR (POGR)	-0.638		-2.547		0.276	
			(2.296)		(0.197)	
REPA (POPA)	-2.505	**	-0.213	***	-0.219	***
			(0.069)		(0.076)	
PROV	-0.48		-0.041		-0.045	
			(0.025)		(0.029)	
LIQ	-0.911		3.542		58.457	
			(42.416)		(47.706)	
LEV	-1.822	*	21.081		25.206	
			(2.049)		(2.342)	
LITA	-0.524		-0.081	**	-0.088	***
			(0.038)		(0.033)	
FSI	-3.939	***	0.824	***	0.259	***
			(0.183)		(0.067)	

contd. table 1

Equation	*Non Parametric (Wilcoxon)*	*Parametric (Pooled Least Squared)*		
		Model 1a	*Model 1b*	
TAGR	-0.751	0.451	0.886	**
		(0.431)	(0.436)	
PAGR	-0.182	1.570	2.862	*
		(1.417)	(17.263)	
NIGR	-0.296	51.365	0.190	
		(4.692)	(0.385)	

Note: 1) The coefficient of dummy estimation (1 for the company after acquisition (post acquisition) and 0 for the company before acquisition (pre acquisition))
2) Numbers in () states the estimated standard error
3) *) Significant at the real level of 10%
**) Significant at the real level of 5%
***) Significant at the real level of 1%

The significant results of Pooled Least Squared (PLS) will be re-tested using Fixed Effect Model (FEM) dan Random Effect Model (REM) test. Afterwards, The Chow test, Hausman test and LM test will be used to compare the results between PLS and FEM, between REM and FEM and between PLS and REM respectively.

Table 3
Panel Data Test Result

Equation	*Model 1 a*			*Test*		*Selected*
	PLS	*FEM*	*REM*	*Chow*	*Hausman*	*LM*	*Model*
EXIR	-0.198 *	-0.286 **	-0.226	1.69 **	1.73	6.34	FEM
EXPA	-0,205 ***	-0.265 ***	-0.236 ***	2.34 ***	2.38	18.20 ***	REM
PATA	0.089 ***	0.114 ***	0.105 ***	3.06 ***	2.02 *	38.27 ***	FEM
REPA	-0.213 ***	-0.244 ***	-0.244 ***	2.33 ***	1.35	17.28 ***	REM
LITA	-0.081 **	-0.083 **	-0.083 **	3.72 ***	0.10	62.83 ***	REM
FSI	0.824 ***	1.336 ***	1.336 ***	23.64 ***	14.08	679.00***	REM

Equation	*Model 1 b*			*Test*		*Selected*
	PLS	*FEM*	*REM*	*Chow*	*Hausman*	*LM*	*Model*
EXPA	-0.175 ***	-0.164 **	-0.185 ***	2.59 ***	4.75	20.78 ***	REM
PATA	0.059 ***	0.020	0.046 **	4.11 ***	17.34 ***	41.77 ***	REM
REPA	-0.219 ***	-0.180 **	-0.229 ***	2.49 ***	9.38 **	14.49 ***	FEM
LITA	-0.087 ***	-0.189 ***	-0.148 ***	5.99 ***	35.30	113.75***	REM
FSI	0.259 ***	0.481 ***	0.269 ***	2.79 ***	56.16	3.16 *	REM
TAGR	0.886 **	2.219 ***	0.886	2.14 ***	-41.39	1.04	FEM
PAGR	2.862 *	7.836 ***	2.859	1.95 ***	-194.06	0.76	FEM

Note: *) Significant at the real level of 10%
**) Significant at the real level of 5%
***) Significant at the real level of 1%

Efficiency Ratio

The ratio of operating costs compared to operating income (EXIR) is tested with the obtained parametric value of -0.286 which is statistically significant at the real level of 5%. The result shows there is real difference in EXIR ratio between before and after the finance company is acquired. EXIR ratio of the company after the acquisition is lower than before being acquired. Finance companies after the acquisition become more efficient than before the acquisition.

Regarding the aspects of the structure of assets, the ratio of earning assets compared to total assets (PATA) was tested and obtained parametric value of 0.114 and statistically significant the real level of 1%. By adding a lagged variable (1) for firm size and asset growth, this ratio was tested and the obtained parametric value is 0.046 and statistically significant at the real level of 5%. The result shows there is real difference in PATA ratio between before and after the finance company is acquired. PATA ratio of the companies after the acquisition is higher than before being acquired. After the acquisition, asset allocation becomes more efficient.

About the ratio of operating costs compared to productive assets (EXPA), this ratio was tested and the parametric test value obtained is -0.236 and statistically significant at the real level of 1%. By adding a lagged variable(1) for firm size and asset growth, the ratio of provisioning is tested with the parametric values obtained -0.185 and statistically significant at the real level of 1%. The result shows there is real difference in EXPA ratio between before and after the finance company was acquired. EXPAratio after the company is acquired is lower than before being acquired. After the acquisition, finance companies become more efficient. Parametric test was also supported by the Mann Whitney test with statistic value obtained of -2.277 and significant at the real level of 5%.

The result is in line with Berger (2000), which found that companies doing mergers and acquisitions, will increase revenue and cost efficiency.

Solvability Ratio

About the aspect of capital structure or leverage (LEV), Mann Whitney test is conducted and the statistic test value obtained is -1.822 and significant at the real level of 10%. This result shows there is real difference in LEV ratio between the finance company before and after the acquisition. LEV ratio of the company after the acquisition will be lower than before the acquisition. In finance companies after the acquisition,new shareholders will add capital to meet minimum capital of IDR 100 billion according to the regulations, or add equity for company expansion.

Regarding liabilities to total assets ratio (LITA), test result obtained using the parametric test is -0.083 and significant at the real level of 5%. By adding a lagged

variable (1) for firm size and asset growth, the ratio of provisioning tested with the parametric values results -0.149 and is statistically significant at the real level 5%. This result shows there is real difference in LITA ratio between before and after the finance company is acquired. LITA after the company is acquired is lower than before being acquired. After the acquisition, the company will obtain additional financing of new equity funds, thereby reducing the ratio of LITA, compared to before acquisitions.

Profitability Ratio

Regarding the ratio of operating income compared to productive assets (REPA), this ratio is tested with the parametric test value obtained of -0.244 and statistically significant at the real level of 1%. By adding a lag variable (1) for firm size and asset growth, the ratio of provisioning tested with the parametric test value of -0.180 and statistically significant at the real level of 5%. This result shows there is real difference in REPA ratio between before and after the finance company is acquired. REPA ratio after the company is acquired is lower than before being acquired. After the acquisition, finance companies will provide more competitive prices to customers. This is also supported by the Mann Whitney test with the statistic value obtained of -2.505 and significant at the real level of 5%.

The result is consistent with findings by Cornet (1992), who found that the financial industry will result in higher profitability after being acquired. This is caused by a greater ability to attract funds from the public and lending to the public. The discovery of Aggarwal (2006) also supports the same thing.

Size Ratio

About the ratio of firm size (FSI), the test result obtained with parametric statistical value of 1.336 and significant at the real level of 1%. By adding a lagged variable (1) for firm size and asset growth, the ratio of provisioning tested with the parametric value obtained 0.269 and significant at the real level of 1%. This result shows there is real difference in FSI ratio between before and after the finance company is acquired. FSI ratio of the company after the acquisition is higher than before acquisition. After the acquisition, finance companies with new shareholders, develop into larger finance companies. This result is consistent with the findings by Cornet (1992).

Growth Ratio

Regarding the ratio of total assets growth (TAGR), the test results using the parametric test by adding a lagged variable (1) for firm size and asset growth, the ratio of provisioning tested obtained the parametric value of2.219 and is significant at the real level of 1%. This result shows there is real difference in TAGR ratio

between before and after the finance company is acquired. TAGR ratio after the company is acquired is higher than before being acquired. After the acquisition, finance companies show growth in total assets compared to before acquisitions.

In regards to the ratio of productive asset growth (PAGR), the test results using the parametric test by adding a lagged variable (1) for firm size and asset growth on the ratio of provisioning tested obtained parametric test value of7.836 and is significant at the real level of 1%. The result shows there is real difference in PAGR ratio between before and after the finance company is acquired. PAGR ratio after the company is acquired is higher than before being acquired. After the acquisition, finance companies show the growth of productive assets.

Liquidity Ratio

Regarding the current ratio, the performance of finance companies between pre and post of acquisition do not change significantly. Through panel data test, company liquidity policy after the acquisition is at similiar toto before being acquired.

Table 4
The Wilcoxon Test Results of Finance Companies' Financial Performance Differences between Backward, Forward and Unrealted Acquisition

Variable	*Backward Acquisition*		*Forward Acquisition*		*Unrelated Acquistion*	
EXIR (BOPO)	-0.909		-1.680	*	-0.135	
EXPA (BOPA)	-1.136		-1.960	**	-0.944	
EXGR (BOGR)	-1.193		-1.120		-0.135	
PATA	-1.647	*	-1.820	*	-2.023	**
ROA	-0.057		-0.140		-0.944	
ROE	-1.363		-0.840		-0.135	
NPM	-0.511		-0.280		-1.214	
REGR (POGR)	-1.306		-0.280		-0.135	
REPA (POPA)	-1.363		-1.820	*	-0.944	
PROV	-0.568		-0.560		-1.095	
LIQ	-0.398		-0.980		-0.405	
LEV	-1.136		-1.120		-0.944	
LITA	-0.341		-1.120		-0.405	
FSI	-2.953	***	-2.100	**	-2.023	**
TAGR	-0.170		-0.420		-1.214	
PAGR	-0.227		-0.140		-1.753	*
NIGR	-1.420		-0.560		-1.483	

*Note :*1) *) Significant at the real level of 10%
**) Significant at the real level of 5%
***) Significant at the real level of 1%

Risk Ratio

The performance of finance companies between pre and post of acquisition do not change significantly. However, the policy of provisioning is similiar to before acquisitions.

3.2. Financial Performance Pre and PostAcquisition by Backward Acquirer

Efficiency Ratio

Regarding the ratio of productive assets compared to total assets (PATA). the test using the Mann Whitney test obtained statistic value of -1.647 and significant at the real level of 10%. This result shows there is real differencein PATA ratio between before and after acquisitions by the banking industry. PATA ratio after the companies are acquired is greater than before being acquired. With the backward acquisition. the support of fund will increase along with being a captive finance company. The ability to grow will be greater. The result is in line with Berger (2000) and Hagendorfl and Keasey (2009).

Size Ratio

Mann Whitney test (MW) obtained that the statistic test value MW for variable Firm Size (FSI) is -2.953 and significant at the real level of 1%. This result shows there is real difference in FSI ratio between before and after the finance company is acquired by the banking industry. FSI ratio of the company after the acquisition is greater than before being acquired. Finance company which was acquired by the bank has financial resources in the form of channeling and joint financing. so the asset is recorded on the books of banking. This is done by Adira Finance. BCA Finance. CIMB Niaga Auto Finance.KITA Finance and several other companies. This result is in line with Cornett (1992).As for the indicators of growth. liquidity. profitability. provisioning and solvability.there is no significant difference between before and after acquisitions.

3.3. Financial Performance Pre and Post Acquisition by Forward Acquirer

Efficiency Ratio

Based on non-parametric approach using the Mann Whitney test (MW) the test result using the Mann Whitney for the variable of Operating Expenses Operating Income Ratio (EXIR) obtained statistic test value of -1.680 and significant at the real level of 10%. This result shows there is real difference in EXIR ratio between before and after the finance company is acquired by the automotive industry. EXIR ratio after the company is acquired is lower than before being acquired. After the acquisition. finance companies become more efficient.

Regarding the structure of assets. the ratio of productive assets compared to total assets (PATA) was tested with the Mann Whitney. and statistic test value obtained is -1.820 and significant at the real level of 10%. This result shows there is real difference in PATA ratio between before and after the finance company is acquired by the automotive industry. PATA ratio after the company is acquired is greater than before being acquired.

Regarding the ratio of operating costs compared to productive assets (EXPA). the test result using the Mann Whitney obtains statistic test value of -1.960 with the real level of 5%. This result shows there is real difference inEXPA ratio between before and after the finance company is acquired. EXPAratio after the company is acquired is lower than before being acquired. After the acquisition. finance companies become more efficient. because of the synergy made by the sole agent with finance companies to create joint promotional programs and sharing platform. Finance companies are allowed to put salespeople on their showroom.

Profitability Ratio

About the ratio of operating income compared to productive assets (REPA). the test result using the Mann Whitney obtained statistic test value of -1.820 and significant at the real level of 10%.This result shows there is real difference in REPA ratio between before and after the finance company is acquired. REPA ratio after the company is acquired is greater than before being acquired. After acquisitions. finance companies provide more competitive prices than before acquisition. This can be seen in automotive sales promotions supported by the captive finance company.

Size Ratio

Mann Whitney test (MW) obtained that the statistic test value MW for variable Firm Size (FSI) is -2.100 and significant at the real level of 5%. This result shows there is are real differencein FSI ratio between before and after the finance company is acquired by the automotive industry. FSI ratio of the company after the acquisition is greater than the finance company before being acquired.

Regarding growth ratio, efficiency ratio, solvability ratio, liquidity ratio, and asset quality, there is no significant difference between pre and post acquisitions.

3.3. Financial Performance Pre and Post Acquisition between Unrelated Acquirer

Efficiency Ratio

About the ratio of productive assets compared to total assets (PATA).the test using the Mann Whitney test obtained statistic value of -2.023 and significant at the real level of 5%. This result shows there are real differences in PATA ratio between

before and after the finance company is acquired by unrelated industry. PATA ratio after the company is acquired is greater than before acquisition. After the acquisition, finance companies provide more competitive prices than before the acquisition. The ability to obtain funding improve and become more competitive.

Size Ratio

Mann Whitney test (MW) obtained that the statistic test value MW for variable Firm Size (FSI) is -2.023 and significant at the real level of 5%. This result shows there is real difference in FSI ratio between before and after the finance company is acquired by unrelated industry. FSI ratio of the company after the acquisition is greater than before being acquired. After the acquisition by the related industry. finance companies become smaller compared to before the acquisition.

Growth Ratio

Mann Whitney test (MW) obtained that the statistic test value MW for variable growth of productive asset (PAGR) is -1.753 and significant at the real level of 10%. This result shows there is real difference in PAGR ratio between before and after the finance company is acquired by a related industry. PAGR ratio after the company is acquired is lower than before being acquired. After the acquisition. finance companies do not have faster growth compared to before acquisition by unrelated industry. because unrelated finance companies have smaller size.thus growth becomes more rapid.Regarding profitability ratio.solvability. liquidity and risk.there is no significant difference between before and after acquisitions.

4. CONCLUSION

This paper investigates whether the acquisition influences the performance of finance company. Using a sample of 100 finance companiesthat published their financial statement over the period 2001-2011. we analyse whether the acquisition results in improved performance of the finance company subsidiary (measured using standard accounting ratios). The paper also investigates the value of acquirer from related industry. The related industry is categorized into two groups which are banking industry and automotive industry. Banking industry provides the funding and automotive industry provides the product of financing to finance company. The integration with banking industry called as backward integration and the integration with automotive industry called as forward integration.

Our study produced several interesting findings. First. the post acquisition finance company showed improvement in efficiency. capital structure. asset allocation. firm size and growth rate. Second. backward acquisition has better asset allocation and firm size. Third. the forward acquisition has produced better asset allocation. higher earning. better efficiency and firm size. Fourth. unrelated

acquisition will provide better firm size but lower efficiency and growth. especially productive asset.

Overall, the result of the study indicates that acquisitions will add value in the operation efficiency and better asset allocation and also improve the firm size. Operation efficiency was shown by the improvement in expense to income ratio and expense to productive asset ratio.

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