

Debt Costs and Acquisition in Indonesia

1st Media Kusumawardani
Faculty of Economics
University of Sriwijaya
 Sumatera Selatan, Indonesia
 mediakusumawardani@fe.unsri.ac.id

2nd Achmad Soediro
Faculty of Economics
University of Sriwijaya
 Sumatera Selatan, Indonesia
 achmadsoediro@fe.unsri.ac.id

3rd Fardinant Adhitama
Faculty of Economics
University of Sriwijaya
 Sumatera Selatan, Indonesia
 dj.dinant9@gmail.com

4th Desri Yanto
State Polytechnic of Sriwijaya
 Sumatera Selatan, Indonesia
 desri.yanto@polsri.ac.id

Abstract— This study discusses changes in debt costs before and after the company conducts acquisition activities. The year observed was one year before the year of acquisition, the year of acquisition and one year after year of acquisition. The number of samples in this study was 37 companies that acquired and were listed on the Indonesia Stock Exchange between 2013 and 2017. The sampling method utilized a purposive sampling method. The t-test employed data processing software with SPSS-20. The results of this study showed there was no evidence of significant changes between the cost of debt a year before the company makes an acquisition with the cost of debt in the year the company did the acquisition. Other results showed the cost of debt in the year the company made the acquisition had a significant difference with the cost of debt one year after the company made the acquisition. Whereas the observation of the year before the company made the acquisition and one year after the company did also show a significant difference. However, with a significant difference, this study showed an increase in interest costs after the company engaged in acquisition activities.

Keywords: *debt, debt cost, acquisition*

I. INTRODUCTION

The decision of a company to carry out acquisition activities is certainly to get more value from the acquisition activity itself. One of the advantages is that a company that carries out acquisitions has control over the acquired companies depending on how much assets they have. Statement of Financial Accounting Standards (PSAK) No.22 [1] states that the acquisition is a form of acquisition of company ownership by the acquirer so that it will result in the transfer of control over the acquiree company. The condition of the acquisition activity is the availability of the company that was taken over and the existence of the company that took over. In addition, the lower the debt ratio, the more likely the firm will be a target for a merger or an acquisition [2]. The acquisition policy in previous research has been proven to have an impact on the acquirer [3] [4] [5] [6] [7] [8] [9] [10]. The impact obtained by the acquirer is an increase in performance [3] [11]. Improved company performance can be seen from the company's performance before and after the acquirer company carried out acquisition activities. Sinha [11] conducted a study in India and the results showed that there was a significant correlation between company performance with mergers and acquisitions in financial institutions. Another result

from Sinha [11] is that there was a significant income difference when a company conducts merger activities. Improved performance is supported by Khan's research [12] which explained that banks will get efficiency and benefits through mergers and acquisitions.

However, previous research also showed other impacts that occur on companies that make acquisitions. Talha [13] explained that the results of his research conducted in Malaysia showed an increase in debt management in companies that conduct mergers and acquisitions. Many other researchers were also looking for answers about the impact of mergers and acquisitions related to debt, namely the cost of debt. One of them is Tang & Han [14] but research on the topic is quite difficult to find. Based on these reasons, this study will focus on debt costs in acquisition activities with a different perspective from Tang & Han's research [14]. Debt costs represent costs incurred as a result of loans and these costs are related to the interest accrued due to company loans. According to Tang & Han [14], the cost of debt was based on the calculation of the total interest expense with the total liabilities held. Debt costs, if related to the activities of the company making the acquisition, are related to changes in assets owned by the acquiring company. Changes in the assets of the acquirer are based on how much assets are taken over from the acquired company. The relationship between the cost of debt and changes in assets or the addition of assets as a result of the acquisition activities is the existence of collateral obtained by creditors that result in the arising of the interest ratio on the debt. The higher the debt guarantee that will be paid and the higher the creditor's confidence in the debt that will be paid, it is assumed that the creditor will provide a lower interest rate. This is reflected in the statement of Duarte, et al [15] explaining that compared to borrowers with high default risk, good borrowers are more likely to provide collateral as a signal to get lower interest rates. Another thing also revealed in Tan & Han's research [14] is that the reorganization of assets due to the merger or acquisition has a negative effect on the cost of debt in China. Please note that the economic climate in each country is different. What about the conditions in Indonesia? With the condition of Indonesia as a developing country and having a different economic climate from China, does the acquisition activity have an impact on the cost of debt or not? Nevertheless, acquisition activities in Indonesia have started to be actively carried out by several companies. KPPU data (Business Competition Supervisory Commission) shows that in 2013

there were 69 companies [16], in 2014 there were 55 companies [17], in 2015 there were 51 companies [18], in 2016 there were 65 companies [19], in 2017 there were 90 companies that had mergers or acquisition policies in Indonesia [20]. The lack of research on the correlation between debt costs and acquisition policies in Indonesia is the reason this research was made. Besides this research is expected to add diversity of research to find answers to the problems above. In contrast to Tang & Han's research [14] which examines the effect on debt costs, this study focuses on the differences that occur in debt costs seen before and after the company that made the acquisition. The t-test will show whether the cost of debt has a significant difference between the cost of debt before and after the company made an acquisition in Indonesia between 2013-2017.

II. LITERATURE REVIEW

A. Debt Cost

According to Tang & Han [14], debt are a vital part of a company's external financing. This not only allows the company to meet the demands of its business operating capital and investment but also facilitates and optimizes corporate governance mechanisms, for example by limiting incentives for excessive investment. Debt cost and debt financing appear to be simultaneously related. According to Tang & Han [14], the cost of debt is calculated by the cost of interest divided by total debt. Ronald et al [21] showed that there is founding family ownership, publicly traded firms and is related, both statistically and economically, to a lower cost of debt financing. Debt cost also can be effected by political. The political uncertainty is associated with higher corporate debt financing costs [22].

B. Acquisition

Statement of Financial Accounting Standards (PSAK) No.22 [1] states that acquisition is a form of the taking over process of ownership of the company by the acquirer so that it will result in the transfer of control over the acquired company. Company control is the power: to regulate the company's financial and operating policies; to appoint and dismiss management; to get majority voting rights in an annual general meeting or shareholder meeting.

The acquisition is a process to take over part of a company's shares by another company and the company is taken over as a subsidiary and continues to operate independently without changing names and activities [23]. The takeover company is called the acquiring company, while the company that is taken over is called the target company [24].

The acquisition policy in previous research has been proven to have an impact on the acquirer. In fact mergers and acquisitions have substantially changed the environment in which organizations operate [4]. According to Yanan et al [3], the mergers and acquisition impact profitability of the company and enlarge their market share. The acquisitions may improve the ability of financially constrained companies to access capital through a better reallocation of resources within segments of the same company or through better access to external markets [10]. But Another result from Harp and Barnes [8] is that there was a low quality internal information needed to select profitable acquisitions will make poorer acquisition decisions

C. Debt Cost and Acquisition

Interest costs are assumed to be affected by acquisition activities. This happens because the acquisition activities involve taking over control based on how much assets the acquirer has in the acquired company. Based on this, the acquirer company has more assets that can be used as collateral for loans. Therefore, it will be possible for creditors to give a smaller interest ratio based on consideration of the large loan opportunities that will be paid. Duarte, et al [15] explained that compared to borrowers with high default risk, good borrowers are more likely to provide collateral as a signal to get lower interest rates. The merger and acquisition can improvement in debt management ratio [13]. Tang & Han [14] showed that there is a negative influence between the cost of debt with the addition of new assets due to mergers and acquisitions. Consequently, it can be assumed that the acquisition activities have a significant impact on the cost of debt. The Material Asset Reorganization (MAR) implementation can enable the acquirers to obtain a massive inflow of assets from target firms and gain significant asset collateral, and this can decrease the acquirers' debt financing costs [14]. The relationship between asset revaluation and debt contracting in examined in thr current setting using refined measured of contracting variable [25]. Based on those, so in this study, the following hypothesis was formulated:

H1: There is a significant difference between the cost of debt a year before the company makes an acquisition and the cost of debt in the year the company makes an acquisition.

H2: There is a significant difference between the cost of debt in the year the company makes the acquisition and the cost of debt in the year after the company makes the acquisition.

H3: There is a significant difference between the cost of debt a year before the company makes an acquisition and the cost of debt one year after the company makes an acquisition.

III. RESEARCH METHODS

A. Research Design

The research method used is quantitative. The type of data used in this study is secondary data from the financial statements of companies listed on the IDX (Indonesia Stock Exchange). This study aim to explain the condition of debt costs as seen from the activities of companies that make acquisitions both before and after the acquisition year with the data used is the financial statements of acquisition companies listed on the Indonesia Stock Exchange between 2013 and 2017.

B. Sampling and Analysis Method

The population was companies that carry out acquisition activities in Indonesia in 2013-2017. With a purposive sampling method, the criteria are as follows: acquisition companies listed in BCSC have made acquisitions between 2013-2017; acquisition companies according to 2013-2017 BCSC data listed on the Indonesia Stock Exchange. T-test in this study was used to determine the condition of debt costs before and after the acquisition activities. The t-test employed data processing software.

IV. RESULTS AND DISCUSSION

A. Research Result

This study uses 37 companies with the following details:

TABLE 1. RESEARCH DATA

No	Kriteria	Jumlah
1	Companies that have conducted mergers or acquisitions between 2013 and 2018 (data from the Business Competition Supervisory Commission).	330
2	Companies listed on the Indonesia Stock Exchange that conduct a merger or acquisition	40
3	Incomplete company data	3
4	Research data	37

The normal data is based on the results of the Kolmogorov-Smirnov One Sample test [26]. Test results based on Paired Samples test can be seen from the following tables:

TABLE 2. HYPOTHESIS TESTING RESULTS

Hipotesis	Signifikan	Keterangan
H1	0,421	Rejected
H2	0,018	Accepted
H3	0,016	Accepted

The results of the first hypothesis data processing have a significance level of 0.421 (a significance level of more than 0.05) meaning that the first hypothesis (H1) was declared rejected. In contrast to the second and third hypotheses, the significance level is 0.018 and 0.016 (significance level less than 0.05), thus H2 and H3 can be accepted.

B. Discussion

Based on the paired t-test shows the first hypothesis (H1) has not been proven significant so it can be interpreted that there is no difference between the cost of debt a year before the company makes an acquisition with the cost of debt in the year the company did the acquisition. Meanwhile, in the testing of the second hypothesis (H2) and the third hypothesis (H3) showed significant differences. The difference was related to the cost of debt in the year when the company initiated the acquisition and the cost of debt in one year after. It was also the difference between the cost of debt one year before the company started an acquisition and the cost of debt one year after the company performed an acquisition. Although this study showed that H2 and H3 have significant differences, the results were different from the previous studies. In this study, it was not proven that the acquirer company experienced a decrease in debt costs after the acquisition. This phenomenon could be seen from the mean and minus t-count which means that the variable before was lower than the variable after. So, based on this result, it can be interpreted that there was an increase in debt costs when the company manages acquisitions. The

results of this study contradict the statement that there will be a decrease in the cost of debt due to acquisition activities. Acquisition activities that increase the value of the assets of the company will give a signal that the company can repay their loans so that it is possible for creditors to reduce the interest rate due to lower risk. Duarte, et al [15] explain that compared to borrowers with high default risk, good borrowers are more likely to provide collateral as a signal to get lower interest rates.

This study shows that the cost of debt increases after the company makes an acquisition compared to before the company made an acquisition. This increase can be influenced by the significant addition of loans made by the acquirer. When there are additional loans made, this will certainly result in increased loan interest to be paid. This can be seen from the sample test data showing an increase in loans after the company undertakes acquisition activities. So it can be concluded that the cost of debt in this study showed an increase along with an increase in loans. Another reason that can be used as a basis for an increase in the cost of debt is the economic conditions and conditions of creditors that are different from previous research countries. Previous research has shown that there is a negative influence between adding new assets due to mergers and acquisitions on debt costs in China [14].

Indonesia has different economic characteristics from China, so it can be assumed that the differences in the economic environment can produce differences in research results. This study revealed an increase in debt costs while Tang & Han's research [14] recorded that the higher the new assets caused by mergers and acquisitions, the lower the cost of debt. Other research also showed that the effects of mergers and acquisitions were different in different countries. This can be seen from the impact of mergers and acquisitions on company performance. the research conducted by Sinha [11] and Khan [12] in India showed that there is a good impact on companies that conduct mergers and acquisitions on company performance. Whereas other studies in Indonesia conducted by Aprilita et al [27] showed that there were no significant differences before and after the company made the acquisition. Another result from Abbas et al [28], there is no positive improvement in the financial performance of the banks in Pakistan after Merger and Acquisition. The merger & acquisition has significant negative effect on the profitability of firms [6], so It is therefore imperative that merger & acquisition are properly planned, executed and evaluated. According to Mahesh and Prasad [9], Airline Companies merger in India does not bring significance difference on the financial performance after the merger.

Debt cost also can be effected by political. Indonesia and China has different political characteristics. According to Waisman et al [22], the political uncertainty is associated with higher corporate debt financing costs.

V. CONCLUSION AND RECOMMENDATION

The results showed that there is no significant difference between the cost of debt in the year before the acquisition and the cost of debt in the year of acquisition. However, there was a significant difference between the cost of debt for the year of acquisition and the cost of debt for one year after acquisition. There was also a difference between the debt costs one year before conducting the acquisition and

the debt costs one year after the acquisition. The results of this study also showed that the cost of debt has increased after the acquisition. The results of this study contradict the previous research conducted by Tang & Han [14] which explains that the higher the new assets that are added up as a result of mergers and acquisitions, the lower the cost of the company's debt.

This study has a weakness in terms of a small sample of data. Based on these weaknesses, the recommendation for further research is to add more research samples. The limitation of this study is due to the small number of samples obtained because the criteria of the company used are companies listed on the Indonesia Stock Exchange. Meanwhile, the number of companies that have acquisitions and are listed on the Indonesia Stock Exchange is very small compared to all companies that have acquisitions in Indonesia. Adding a sample can be done by adding to the financial year being observed and not limiting the sample to the criteria that must be listed on the Indonesia Stock Exchange. Thus, both the listed and not listed acquirer companies on the Indonesia Stock Exchange can become the sample for the research on the impact of the acquisition activities on debt costs.

REFERENCES

- [1] Dewan Standar Ikatan Akuntansi Indonesia, *Pernyataan Standar Akuntansi Indonesia No. 22*. Jakarta, 1994.
- [2] A. I. Erdogan, "The Determinants of Mergers and Acquisitions: Evidence from Turkey," *Int. J. Econ. Financ.*, vol. 4, no. 4, pp. 72–77, 2012.
- [3] E. M. Yanan, S. M. Hamza, and A. Basit, "Impact of Merger and Acquisitions on Firms Financial Performance: A study on United States of America," vol. 4, no. 2, pp. 159–169, 2016.
- [4] A. Bashir, M. . Sajid, and S. . Sheikh, "The Impact of Mergers and Acquisitions on Shareholders Wealth: Evidence from The Impact of Mergers and Acquisitions on Shareholders Wealth: Evidence from Pakistan," *Middle-East J. Sci. Res.*, vol. 8, no. 1, pp. 261–264, 2011.
- [5] M. Mateev, "Is the M&A Announcement Effect Different Across Europe? More Evidences from Continental Europe and the UK," *Res. Int. Bus. Financ.*, 2017.
- [6] I. M. Oduro and S. K. Agyei, "Mergers & Acquisition and Firm Performance: Evidence from the Ghana Stock Exchange," *Res. J. Financ. Account.*, vol. 4, no. 7, pp. 99–108, 2013.
- [7] V. Vyas, K. Narayanan, and A. Ramanathan, "Determinants of Mergers and Acquisitions in Indian Pharmaceutical Industry," *Eurasian J. Bus. Econ.*, vol. 5, no. 9, pp. 79–102, 2012.
- [8] N. L. Harp and B. G. Barnes, "Internal Control Weaknesses and Acquisition Performance," *Account. Rev.*, vol. 93, no. 1, pp. 235–258, 2018.
- [9] R. Mahesh and D. Prasad, "POST MERGER AND ACQUISITION FINANCIAL PERFORMANCE ANALYSIS: A CASE STUDY OF SELECT INDIAN AIRLINE COMPANIES," *Int. J. Eng. Manag. Sci.*, vol. 3, no. 3, pp. 362–369, 2012.
- [10] S. H. Khatami, M. Marchica, and R. Mura, "Corporate Acquisitions and Financial Constraints," *Int. Rev. Financ. Anal.*, 2015.
- [11] N. Sinha, "Measuring Post Merger and Acquisition Performance: An Investigation of Select Financial Sector Organizations in India," *Int. J. Econ. Financ.*, vol. 2, no. 4, pp. 190–200, 2010.
- [12] A. A. Khan, "Merger and Acquisitions (M & As) in the Indian Banking Sector in Post liberalization R egime," *Internastional J. Contemp. Bus. Stud.*, vol. 2, pp. 31–45, 2011.
- [13] M. Talha, "On Debt Management Ratio : A Case Study In Malaysian Banking Sectors," *Int. Bus. Ekon. Res. J.*, vol. 4, no. 11, pp. 65–78, 2005.
- [14] Q. Tang and H. Han, "Can material asset reorganizations affect acquirers ' debt financing costs ? – Evidence from the Chinese Merger and Acquisition Market q," *China J. Account. Res.*, vol. 11, no. 2, pp. 71–90, 2018.
- [15] J. P. Duarte, F., Gama, M., Paula, A., Esperanc, a, "The role of collateral in the credit acquisition process: evidence from SME lending," *J. Bus. Financ. Acc.*, vol. 43, pp. 693–728, 2016.
- [16] KPPU (Komisi Pengawas Persaingan Usaha), "Pemberitahuan Merger 2013," *KPPU*. [Online]. Available: <http://www.kppu.go.id/id/mergerdan-akuisisi/publikasi-pemberitahuan/pemberitahuan-merger-2013/>. [Accessed: 05-Jun-2019].
- [17] KPPU (Komisi Pengawas Persaingan Usaha), "Pemberitahuan Merger 2014," *KPPU*. [Online]. Available: <http://www.kppu.go.id/id/mergerdan-akuisisi/publikasi-pemberitahuan/pemberitahuan-merger-2014/>. [Accessed: 05-Jun-2019].
- [18] KPPU (Komisi Pengawas Persaingan Usaha), "Pemberitahuan Merger 2015," *KPPU*. [Online]. Available: <http://www.kppu.go.id/id/mergerdan-akuisisi/publikasi-pemberitahuan/pemberitahuan-merger-2015/>. [Accessed: 05-Jun-2019].
- [19] KPPU (Komisi Pengawas Persaingan Usaha), "Pemberitahuan Merger 2016," *KPPU*. [Online]. Available: <http://www.kppu.go.id/id/mergerdan-akuisisi/publikasi-pemberitahuan/pemberitahuan-merger-2016/>. [Accessed: 05-Jun-2019].
- [20] KPPU (Komisi Pengawas Persaingan Usaha), "Pemberitahuan Merger 2017," *KPPU*. [Online]. Available: <http://www.kppu.go.id/id/mergerdan-akuisisi/publikasi-pemberitahuan/pemberitahuan-merger-2017/>. [Accessed: 05-Jun-2019].
- [21] R. C. Anderson, S. A. Mansi, and D. M. Reeb, "Founding family ownership and the agency cost of debt," *J. financ. econ.*, vol. 68, pp. 263–285, 2003.
- [22] M. Waisman, P. Ye, and Y. Zhu, "The effect of political uncertainty on the cost of corporate debt &," *J. Financ. Stab.*, vol. 16, pp. 106–117, 2015.
- [23] P. Fuad, M., Christine, Nurlela, Sugiarto, *Pengantar Bisnis*. Jakarta, 2006.
- [24] Sitanggang, *Manajemen Keuangan Perusahaan Lanjutan*. Jakarta, 2013.
- [25] J. Cotter, "Asset Revaluations and Debt Contracting," *ABACUS*, vol. 35, no. 3, pp. 268–285, 1999.
- [26] I. Ghozali, *Aplikasi Analisis Multivariate dengan program IBM SPSS21 Edisi 7*. Semarang, 2013.
- [27] I. Aprilita, H. Rina, and T. Dp, "Alumni Fakultas Ekonomi Universitas Sriwijaya Dosen Fakultas Ekonomi Universitas Sriwijaya 3 Dosen Fakultas Ekonomi Universitas Sriwijaya," *J. Manajemen dan Bisnis Sriwij.*, vol. 11, pp. 99–104, 2011.
- [28] Q. Abbas, A. I. Hunjra, R. I. Azam, M. S. Ijaz, and M. Zahid, "Financial performance of banks in Pakistan after Merger and Acquisition," *J. Glob. Entrep. Res.*, vol. 4, no. 13, pp. 1–15, 2014.