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ANALYSIS OF DIFFERENCES IN FINANCIAL PERFORMANCE OF DOMESTIC BANKS BEFORE AND AFTER ACQUISITIONS BY BANKS FROM JAPAN AND KOREA

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Abstract: *This research aims to determine the acquisition of the financial performance of Korean Banks and Japanese Banks in Indonesia before and after the acquisition. This research is carried out on companies in the banking industry originating from Japan and Korea and making acquisitions in Indonesia that have been allowed by OJK to operate. The population of this study is Domestic Banks which were acquired by banking companies from Japan and Korea which operated after acquiring other local companies between 2003 and 2016 with a total of 6 companies. The sampling technique was carried out by non-probability sampling. The data analysis technique used in this study is descriptive statistics, normality test, while the mean difference test used is paired sample t-test. The results of this research illustrate that there are differences in NPM before and after the acquisition. Further, there is no difference in ROA, DER, CAR and LDR before and after the acquisition*

Keywords: *Net Profit Margin, Return on Assets, Debt to Equity Ratio, Capital Adequacy Ratio, Loan to Deposit Ratio*

1. Introduction

Major changes continue to take place in a variety of domains, including economic, social, legal, and even political. These changes have had a significant effect on the entire sector, both locally and globally. Sufficiently intense competition and market dynamics have prompted changes in practically every industry's marketing, finance, manufacturing, and work culture. When confronted with ever-increasing competition, corporations frequently employ multiple techniques. Mergers and acquisitions are one strategy that may be pursued. Brigham and Dave (2016) highlight that mergers and acquisitions are motivated by variety of factors: (1) acquiring assets at a discount to replacement cost, (2) tax considerations, (3) synergies, (4) diversification, (5) acquiring control of more significant enterprises, and (6) Breakup Value.

Economic benefits can be realized through mergers and acquisitions through economies of scale and by better positioning assets in the hands of management. The fact is that mergers have the potential to reduce competition, which is why they are closely scrutinized by governmental agencies. Mergers and acquisitions are understood differently by the Indonesian government. As stated in Law No. 40/2007 concerning Limited Liability Companies, a merger is defined as "any legal act carried out by a company or more for the merger of individuals with other companies,

which already exist to provide consequences for the liabilities and assets of the merging company to be transferred by law to the company that obtained the merger and subsequently the acquisition of a company by another company. A takeover or acquisition, on the other hand, is a legal act that is carried out by a person or legal entity in order to acquire control over the company's shares, which results in the transfer of control over the company. Bearing in mind that all of the companies in the research sample carry out acquisitions in accordance with the understanding specified in the Company Law (UUPT), and the variable employed in this study is acquisition.

Indonesia has a potential banking industry future. As of 2017, the country's credit utilization to GDP ratio was only 43 %. Foreign investors in Indonesia are feeling compelled to buy local banks. The acquisition of a Foreign Bank to a Bank located in Indonesia is due to a fairly high national NIM (Net Interest Margin) factor, which is around 5.09% as of the end of 2017. Some countries with low NIM will undoubtedly be interested in developing in Indonesia, as according CNBC Indonesia (2018). NIM in Japan is below 1%, while NIM in Korea fluctuates between 1-%. However, according to statistics from Indonesia's globalEDGE Country Risk Rating, the country's economic risk is still acceptable or Acceptable Risk, whereas Korea and Japan are at A2 or Low Risk.

Japan and South Korea are two (two) countries with relatively low interest rates. The purpose of low interest rates is to entice the public, investors, and banks to lend their money to households and businesses. Low interest rates should then wreak havoc on the economy by cutting the cost of borrowing for everyone which should spur economic development (Bloomberg, 2019). NIM is a ratio that compares net interest income to average earning assets; in other words, net interest income is the difference between interest revenue received by a financial institution or bank and interest cost paid by third-party financial institutions or other banks. According to the Deposit Insurance Corporation (Indonesian Government Agency), Indonesia has the largest Net Interest Margin (NIM) in the world, which is on 5%. (Majalah Infobank, 2019).

According to Rosiana (2018), on cnbcidonesia.com on August 6, 2018, investors from Japan and South Korea have been more active in acquiring domestic banks in the last six years than investors from other countries. This proves that Japan and Korea are highly aggressive in their acquisition of Indonesian domestic banks. The reason that arises is because the perceived profit is greater in the net interest margin ratio. However, it is necessary to conduct a deeper analysis related to the condition of the Bank's financial performance after the acquisition.

In Indonesia, the banking business is a very large and important industry. According to Law No. 10/1998 on the definition of a bank, a bank is defined as a business entity that collects funds from a community in the form of distribution and savings and returns those funds to the community in the form of credit and other forms in order to raise the overall standard of living in the community. A favorable state of the financial services market in Indonesia has resulted in intense competition among competitors in the industry, which has attracted the attention of multinational banking corporations to the country's financial services sector.

Acquisitions and mergers are a strategy used by companies to stay competitive or expand, especially those in the banking industry. Shivakumar Deene and Sanjeevkumar (2018) propose that mergers and acquisitions might result in efficiency gains. Mergers and acquisitions can be utilized to help banks grow, according to this study done in India. Rosani (2012) examined the

acquisitions made by Indonesia's largest private bank and discovered that the primary reason for these purchases was for the company to diversify its products and growth factors. Numerous strategic management scholars agree that acquisitions can assist businesses, especially banks, in gaining direct access to new markets, products, distribution routes, market position/market share, desirable systems and processes, eliminating competition, and acquiring new vital resources (Gambill and Hodge, 2008). Omoye and Aniefor (2016) did a study on bank mergers and acquisitions in Nigeria and discovered that acquisitions had an impact on profitability, leverage buyouts, and shareholder welfare.

Ozturk (2016) discovered that when banks operating in the European Union performed purchases and mergers between 2003 and 2013, larger and more efficient banks tended to merge with banks with relatively low income sources and greater diversification. The extent to which banks' capital structures, capital adequacy, credit risk, and liquidity strategies are comparable is positively connected with post-transaction performance. Reda (2013) discovered that banks that do so can boost efficiency and minimize risk, based on the results of his research on Egyptian banks. Dwarkasing (2014) did research on many banks in Europe and discovered that between 2002 and 2013, 147 mergers and acquisitions occurred, resulting in the acquiring bank earning larger profits during the financial crisis. There is no meaningful difference between banks that buy domestic and foreign banks. A study conducted in Malaysia by Lai et al (2015) on all banks in Malaysia that made acquisitions and mergers. Comparative analysis on a financial ratio used to assess the performance of local Malaysian banks during the pre-merger period (1999-2001) and the post-merger period (2002-2010) the results show that there is no significant improvement in the performance and efficiency of banks that join.

Analysis of financial performance has the aim of providing value for the implementation of strategies in a company that is in the acquisition. Which performance is given the understanding as an achievement that can be achieved by a financial management in obtaining the goal of a company to provide profits and increase value within the company. Various researches that have been carried out related to financial performance within the company relate to acquisition activities and refer to the BI Circular No.13/24/DPNP dated 25/10/2021 regarding the Assessment of Health Levels in Commercial Banks, this research uses financial ratios such as NPM , ROA, DER, CAR, and LDR.

ROA is a profitability ratio that can be used to determine a company's capability to generate profit from its assets. A high ROA demonstrates that a corporation can deliver profit from the entire assets necessary to run. On the other side, a negative ROA indicates that a company has not been able to generate profits from the total assets utilized to operate. If a company has a high ROA, it provides a significant chance for further expansion; but, if the company's overall assets do not generate a profit, the company will incur a loss and create barriers to growth.

Moreover, NPM is used to determine a company's capacity to generate profits. NPM is a ratio that indicates how much profit a business earns on each sale after deducting taxes and interest costs. In general, the greater this ratio, the better. Joash (2015) performed a research of 14 banks in Kenya that were involved in acquisitions and mergers, concluding that acquisitions boost profitability. Nevertheless, Yusuf and Sheidu (2015) found that mergers and acquisitions had no effect on the Net Profit Margin of enterprises in Nigeria.

The debt-to-equity ratio (DER) compares a company's capital to its debt. This ratio can be used to determine a company's ability to make debt payments for a creditor based on its equity.

The greater the amount of money owned by a creditor that is employed as working capital in order to improve a company's earnings, the higher this ratio. In a study of the performance of a company after and before the acquisition of a manufacturing company on the IDX in 2003-2007, Kurniawan and Widyarti (2011) found that DER had not experienced significant changes, but descriptive data suggested that there was not much increase.

CAR is a ratio used to evaluate a bank's financial performance, according to BI Circular Letter No.13/24/DPNP from October 25, 2011 about the assessment of levels on health from commercial banks. CAR becomes a ratio that can provide an overview of the whole assets of banks that are risky and participate in financing their own capital funds in a bank, regardless of whether funds are obtained from outside sources such as loan funds, societies, and so on. According to research carried by Ozturk (2016) on banks across Europe, mergers and acquisitions have a beneficial impact on CAR conditions, with the bank's capital adequacy performance improving after the acquisition. Baniya and Shah (2016) concluded that the condition of CAR banks involved in acquisition and merger operations was much better than the previous study, which included 200 directors, management, and executives in Nepal's banking sector. Altunbas and Ibáez (2004) investigated the impact of acquisitions and mergers on financial performance at a European bank that completed 262 transactions between 1992 and 2001. The results revealed that the condition of capital adequacy (CAR) improved as a result of mergers and acquisitions.

The LDR is the ratio of a bank's total credit to the amount of funding it receives. This ratio provides an overview of a bank's liquidity evaluation. Third-party funds in the form of deposits, savings, and current accounts are not shared across banks. The LDR is expressed as a percentage. If the ratio is pretty high, it indicates that the bank may not have enough liquidity to satisfy an unexpected funding need. A bank, on the other hand, may have difficulty lending if the ratio is too low. According to Ozturk (2016), mergers and acquisitions have a beneficial influence on corporate liquidity, which includes the loan-to-deposit ratio. Babatune et al (2018) did a study on 3 (three) Nigerian banks that completed mergers and acquisitions in 2005, discovering that the three banks' LDR had improved. Singh and Gupta conducted research on 2 (two) large banks in India, namely ICICI Bank and State Bank Of India, which engaged in acquisition and merger activities. One of the findings of the research was that acquisitions and mergers had a positive impact on the Credit to Deposit Ratio of the 2 (two) banks.

Previously performed research in a number of different nations examined the impact and relationship of acquisition events on efficiency, profitability, new market expansion, and financial performance. This research will examine various occurrences or acquisitions in Indonesia involving several financial services companies from Japan and Korea. The unique characteristics of the Indonesian banking sector, including as interest rates, nonperforming loan ratios, and current rules, will have a significant impact on a company's policies and conditions.

2. Research Method

This is a comparative type of research. Comparative research is a kind of deductive research that seeks fundamental answers regarding the origin and effect of a phenomena by examining the factors that contribute to its emergence or occurrence (Hamdi and Bahrudin, 2015). The goal of this research is to compare variables to other factors in order to see whether there is a

relationship with other groups. This research employs comparative analysis in order to ascertain the difference in financial performance and past acquisitions between a Bank of Japan and a Bank of Korea in Indonesia. Domestic banks acquired by banking companies originating in Japan and Korea that operate as a result of purchasing other local businesses between 2003 and 2016, totaling six companies. This study used a nonprobability sampling technique.

The research data was analyzed using a paired sample t-test with the help of SPSS. Before regression, the classic assumption test was previously performed. According to Ghozali (2018: 163), the equation in finding comparison using paired sample t-test as follows:

$$t = \frac{\dot{X}_1 - \dot{X}_2}{\sqrt{\frac{S_1^{\,2}}{n_1} + \frac{S_2^{\,2}}{n_2} - 2r\left(\frac{S_1}{\sqrt{n_1}}\right)\left(\frac{S_2}{\sqrt{n_2}}\right)}} \quad \text{.....(1)}$$

Description:
X_1 : Mean of before acquisition
X_2 : Mean of during
n_1 : Amount of data before
n_2 : Amount of data during
S_1 : Standard deviation before
S_2 : Standard deviation during
r : Correlation between before and during
$S_1^{\,2}$: Variance before
$S_2^{\,2}$: Variance during

3. Results and Discussion

3.1. Results

The entire number of samples comes from 6 different companies, and all of the samples are used in the testing. Table 1 contains a more in-depth description of the characteristic.

Table 1. Descriptive Statistical Analysis

Descriptive Statistics						
		N	Minimum	Maximum	Mean	Std. Deviation
NPM	Before	6	-10,1334	0,7242	-1,404300	4,2840226
	After	6	-1,8639	1,3557	0,216650	1,0873696
ROA	After	6	-0,0523	0,0328	0,005967	0,0304957
	Before	6	-0,0447	0,0500	0,011000	0,0311189
DER	Before	6	1,1586	13,1684	5,631300	5,3503961
	After	6	0,9394	10,8715	3,670283	3,6413110
CAR	After	6	0,1348	0,8060	0,333450	0,2440934
	Before	6	0,1528	0,6785	0,332717	0,2055661
LDR	Before	6	0,6923	1,9819	1,159933	0,5093213
	After	6	0,9633	2,4022	1,413900	0,5293613
Valid N (listwise)		6				

Source: Secondary data processed, 2021

Referring to the results of the analysis in the table above, the results obtained are as follows:

The Net Profit Margin (NPM) before the acquisition had a minimum value of -10.1334. The maximum value is 0.7242 and the average is -1.404300 with a standard deviation of 4.2840226. After the acquisition, the Net Profit Margin (NPM) has a minimum value of -1.8639. The maximum value is 1.3557 and the average is 0.216650 with a standard deviation of 1.0873696.

Return on assets (ROA) before acquisition has a minimum value of -0.0523. The maximum value is 0.0328 and the average is 0.005967 with a standard deviation of 0.0304957. After the acquisition, Return on assets (ROA) has a minimum value of -0.0447. The maximum value is 0.0500 and the average is 0.011000 with a standard deviation of 0.0311189.

The Debt to Equity Ratio (DER) before the acquisition has a minimum value of 1.1586. The maximum value is 13.1684 and the average is 5.631300 with a standard deviation of 5.3503961. After the acquisition, the Debt to Equity Ratio (DER) has a minimum value of 0.9394. The maximum value is 10.8715 and the average is 3.670283 with a standard deviation of 3.6413110.

Capital Adequacy Ratio (CAR) before acquisition has a minimum value of 0.1348. The maximum value is 0.8060 and the average is 0.333450 with a standard deviation of 0.2440934. After the acquisition, the Capital Adequacy Ratio (CAR) has a minimum value of 0.1528. The maximum value is 0.6785 and the average is 0.332717 with a standard deviation of 0.2055661.

The Loan to Deposit Ratio (LDR) before acquisition has a minimum value of 0.6923. The maximum value is 1.9819 and the average is 1.159933 with a standard deviation of 0.5093213. After the acquisition, the Loan to Deposit Ratio (LDR) has a minimum value of 0.9633. The maximum value is 2.4022 and the average is 1.413900 with a standard deviation of 0.5293613. Furthermore, the normality test was carried out using the Kolmogorof-Smirnov test as follows.

Table 2. Normality Test Results

Tests of Normality

		Kolmogorov-Smirnov[a]			Shapiro-Wilk		
		Statistic	df	Sig.	Statistic	df	Sig.
NPM	Before	0,462	6	0,000	0,555	6	0,000
ROA	Before	0,291	6	0,124	0,807	6	0,068
DER	Before	0,332	6	0,038	0,786	6	0,044
CAR	Before	0,305	6	0,085	0,789	6	0,047
LDR	Before	0,232	6	0,200*	0,894	6	0,341
NPM	After	0,341	6	0,028	0,791	6	0,048
ROA	After	0,300	6	0,098	0,894	6	0,341
DER	After	0,384	6	0,006	0,719	6	0,010
CAR	After	0,324	6	0,048	0,830	6	0,107
LDR	After	0,272	6	0,189	0,837	6	0,123

*. This is a lower bound of the true significance.
a. Lilliefors Significance Correction

Source: Secondary data processed, 2021

Referring to Table 2, it can be seen that the ROA and LDR variables before and after the acquisition have a significant value exceeding 0.05. This gives an illustration that the ROA and LDR variables are normally distributed, so it can be continued to test the hypothesis using the paired t-test. While the NPM, DER and CAR variables have significant values below 0.05, so that the NPM, DER and CAR variables are not normally distributed, the hypothesis testing will be carried out using the Wilcoxon test.

Table 3. Paired t-test (ROA) Test Results

Paired Samples Test								
		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	ROA Before – ROA After	-0,0050333	0,0090683	0,0037021	-0,0145500	0,0044833	-1,360	5	0,232

Source: Secondary data processed, 2021

Referring to Table 3, it is able to show the results of the homogeneity of variance testing using the t test, the significant value for the data before and after the acquisition is 0.232 exceeding 0.05 (0.232 > 0.05), hence the rejection of the hypothesis.

Table 4. Results of Paired t-test (LDR)

Paired Samples Test									
		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	LDR Before – LDR After	-0,2539667	0,8062563	0,3291527	-1,1000807	0,5921474	-0,772	5	0,475

Source: Secondary data processed, 2021

Referring to Table 4, it is able to show the results of the homogeneity of variance testing using the t test, the significant value for the data before and after the acquisition is 0.475 exceeding 0.05 (0.475 > 0.05), hence the rejection of the hypothesis, in other words there is no difference in LDR before and after being acquired.

Table 5. Wilcoxon Test (NPM) Test Results

Test Statistics[a]	
	NPM Before – NPM After
Z	-1,992[b]
Asymp. Sig. (2-tailed)	0,046
a. Wilcoxon Signed Ranks Test	
b. Based on negative ranks.	

Source: Secondary data processed, 2021

Referring to table 5, it is able to show the results of the homogeneity of variance testing using the Wilcoxon test, a significant value for NPM data after and before the acquisition is 0.046 (0.046 < 0.05), then the hypothesis is accepted, in other words there is a difference in NPM after and before being acquired.

Table 6. Wilcoxon Test (DER) Test Results

Test Statistics[a]	
	DER Before – DER After
Z	-1,782[b]
Asymp. Sig. (2-tailed)	0,075
a. Wilcoxon Signed Ranks Test	
b. Based on negative ranks.	

Source: Secondary data processed, 2021

Referring to table 6, it is able to show the results of the homogeneity of variance testing using the Wilcoxon test, a significant value for DER data after and before the acquisition of 0.075 (0.075 < 0.05), then the acceptance of the hypothesis, in other words there is a difference in DER after and before the acquisition, this is also indicated by the mean value of DER after the acquisition.

Table 7. Wilcoxon Test (CAR)

Test Statistics[a]	
	CAR Before – CAR After
Z	-0,314[b]
Asymp. Sig. (2-tailed)	0,753
a. Wilcoxon Signed Ranks Test	
b. Based on negative ranks.	

Source: Secondary data processed, 2021

Referring to table 7 is able to show the results of the homogeneity of variance testing using the Wilcoxon test, a significant value for CAR data after and before the acquisition is 0.046 (0.753 > 0.05), then the hypothesis is rejected, in other words there is no difference in CAR after and before the acquisition.

3.2. Discussion

In accordance with the results of data analysis using the Wilcoxon test, the significant value for NPM data before and after the acquisition shows that there are differences in NPM before and after the acquisition. The acquisition carried out has a positive impact on a company. This means that the acquisition carried out by a company has a positive impact on a company thereby increasing the company's ability to create profits. The results of this research are in line with those of Yusuf & Sheidu (2015) based on their research in Nigeria which illustrates that there is no change in NPM in a company that carries out acquisitions and mergers.

Referring to the results of data analysis using the Paired Sample t test, it shows that there is no difference in ROA before and after the acquisition. The acquisitions carried out did not have a significant impact on the company. This means that the acquisition carried out by a company does not have a significant impact on the company so that it does not affect the company's ability to generate profits from the assets used. The results of this research are in line with those of Harjeet and Jiayin (2013) who conducted a study of companies conducting acquisition activities in China where the ROA after and before being acquired did not experience significant changes.

Referring to the results of data analysis using the Wilcoxon test, it shows that there is no difference in DER before and after the acquisition. The acquisitions carried out did not have a significant impact on the company. This means that the acquisition carried out by a company does not have a significant impact on the company, so that it does not affect the company's ability to pay debts to creditors with the equity owned by the company. The results of this research are in line with Kurniawan and Widyarti (2011) in their research on the analysis of company performance before and after the acquisition with a sample of manufacturing companies listed on the IDX in 2003-2007 found the results that DER did not change significantly but based on descriptive data it show that there is a slight increase.

Referring to the results of data analysis using the Wilcoxon test, it shows that there is no difference in CAR before and after the acquisition. The acquisitions carried out did not have a significant impact on the company. This means that the acquisition carried out by a company does not have a significant impact on the company so that it does not affect the bank's assets that contain risks (credit, investments, securities, claims on other banks) which are financed from the bank's own capital funds. The results of this research are not in line with Oktavia (2018) which states that there is no significant difference in banking CAR between after and before the acquisition and merger.

Referring to the results of data analysis using the Paired Sample t test, it provides an illustration that there is no difference in LDR before and after the acquisition. The acquisitions carried out did not have a significant impact on the company. This means that the acquisition carried out by a company does not have a significant impact on the company so that it does not affect the amount of credit provided by the company with the funds received by the company. The results of this research are in line with Rainti (2018) where in her research the LDR after the acquisition did not experience a significant change compared to before it was acquired.

4. Conclusion

Based on the findings of the research analysis and the discussion in the preceding chapter, the following are the study's conclusions:

1) There are differences in NPM before and after acquisition. Acquisitions that are run have a positive impact on a company.
2) There is no difference in ROA before and after acquisition. The acquisitions that are run do not have a significant impact on the company. This means that the acquisition run by a company does not have a significant impact on the company, so that it does not affect the company's ability to generate profits from the assets used.
3) There is no difference in DER before and after the acquisition. The acquisitions carried out did not have a significant impact on the company. This means that the acquisition carried out by a company does not have a significant impact on the company so that it does not affect the company's ability to pay debts to creditors with the equity owned by the company.
4) There is no difference in CAR before and after the acquisition. The acquisitions carried out did not have a significant impact on the company. This means that the acquisition carried out by a company does not have a significant impact on the company, so that it does not affect the bank's assets that contain risks (credit, investments, securities, claims on other banks) which are financed from the bank's own capital funds.

5) There is no difference in LDR before and after the acquisition. The acquisitions carried out did not have a significant impact on the company. This means that the acquisition carried out by a company does not have a significant impact on the company, so that it does not affect the amount of credit provided by the company with the funds received by the company.

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