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How Merger and Acquisition Affect Firm Performance and Its Quality

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Abstract

Purpose: Mergers and acquisitions are forms of corporate restructuring. This study was conducted to examine the firm's performance after the company carried out a merger and/or acquisition during the period 2010-2014.

Design and Methodology: The variables used in this study are financial ratios such as Gross profit margin ratio, Operating profit margin ratio, Net profit margin ratio, Return on capital employed, Earning per share, Return on assets, Return on equity and Return on net worth. This study also focuses on how the quality of firm earnings changed following a merger and/or acquisitions to know whether the changes in firm profit will also affect the quality of profit.

The sample was selected using a non-probability purposive sampling method. Data is analyzed using a descriptive statistical test, outlier test, normality test and hypothesis test (t-test). This study used paired sample t-test to analyze two different paired samples using the SPSS program.

Findings: The results from this study show that the firm's performance has decreased after mergers and acquisitions, but the quality of earnings after mergers and acquisitions have insignificant increases.

Practical Implications: Management must discipline themselves to ensure good corporate governance, develop a good approach to the management of assets and liabilities, and pay attention to the knowledge transfer and technology transfer that the company gets for the benefit of the company to be able achieve the synergy of acquisition in order to increase profitability.

The Significance of The Study: Statistical evidence found that company profitability will be declining significantly after a merger and acquisition occurred. But separately, this decline also makes the profits that are generated of better quality. This also means that the decrease of profitability is also increasing the better quality of their earnings.