

The Financial Performance of International Takeovers of the State-owned Companies: Evidences from Indonesia after the 1997/1999 Asian Crisis

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Abstract The objective of this study is to examine the financial performance of state-owned and non state-owned enterprises that were sold to foreign investors, i.e. International acquisitions, in the years 2000-2010. This research is driven by a number of controversies over the sale of Indonesian state enterprises to foreign investors that allegedly have been done under the pressure of IMF and that were suspiciously priced below the companies real market values. Many people oppose the sale because these companies carried Indonesia government bonds that were given as liquidity bailed-out during the years of crisis between the year of 1998 and 2000. Performance comparison could show whether the sale to foreign investors brought economic benefits as expected. To measure the performance of cross border acquisition this research used both accounting data and capital markets based measures. Samples were matched according to characteristics of companies being analyzed: financial (banks) institutions vs. non-financial companies and pure private vs. state-owned companies. The purposive sampling method was applied. Financial ratios and cumulative abnormal returns of fifteen acquired companies between the years 2000-2010 were examined. The final sample consists of sixty firm-year data. The results indicate that, as hypothesized, there is no performance improvement on state-owned banks acquired by foreign investors. On the other hand, state-non bank companies show significantly different improvement in performance compared to private banks and private-non bank performance. In general, these studies support the notion that politics may play role on the sale of state-owned bank after crisis period (2000-2010). Further investigation is needed to elaborate the findings.

Keywords Acquisition, International Takeover, Political Costs, Company Performance

In the mid 1997s many Asian countries suffered from monetary crisis as a result of devastating currency rate fluctuations. Among the Asian countries in crisis Indonesia was probably the most affected by the financial crisis causes political turmoil and economic impoverishment. President Suharto who has been in power since 1966, finally fell after a massive demonstration on May 20, 1997 and Indonesia entered the reform era. At the end of his era, to rescue Indonesia economy Suharto signed an economic assistance agreement with IMF which later the monies would be used improve liquidity in the banking industry (BLBI).

The financial assistance was accompanied by some of the requirements stated in the LOI (letter of intent) that basically contained IMF request for Indonesia government to liberalize its country economy. From the standpoint of the IMF, the LOI was purely formulas to implement neoliberal economy principles [8] and that was considered to be important for Indonesia's economy immediate recovery. Many economic observers and NGOs protest the IMF recipes that force Indonesia to enter into global economy competition while Indonesia companies were not really ready. To implement the IMF loan requirements, President Megawati, who was in power five years after Suharto fall, finally agreed to sell several state-owned enterprises to private parties. Note that this move seems to be consistent with neo liberalism economy doctrines that the government should reduce interference in business life, because, the interference would simply create destruction and consequently would create economic inefficiency [8].

The sale of some state-owned enterprises has created a lot of criticism. Firstly, critics attacked the problem of assessment and argued that the selling price was too cheap. All state enterprises that were sold were indeed highly profitable companies but they were undervalued. For example, BCA selling prices are several times the amount of BCA's annual earnings. The second criticism questioned aspects of the national interest that was sacrificed because of all the state-owned company eventually fell on foreign

1. Introduction

investors. The critics argue that some companies were still holding government bonds (recapitalization bonds). If the company were sold to foreign investors then it means the government owes to foreigners and the interest charged to foreigners [12].

Although the policy (i.e., selling state-owned enterprises) is controversial, comprehensive research on the effects of the acquisition on the performance of these companies has not yet been done. The public certainly hope that after the companies being acquired by some foreign companies the Indonesia formerly state-companies financial situation would be better. Foreign Investor may have a better financial capability and have better managerial skills in managing the company so they are able to execute better business strategies.

Given the argument, the study tested whether the acquisitions done by foreign parties bring benefits in terms of improved financial condition. Foreign investors who have excess funds may be interested in buying assets in Indonesia when it was undervalued as a result of the economic crisis. They may be more interested in short-term gains from rising stock prices of the company's performance or creating synergies in the long run.

During monetary crisis, the banking companies commonly face a liquidity problem but they are able to adapt faster than other industries to exploit opportunities from exchange rate volatility. Hence, many companies in the banking industry gain higher profitability during monetary crisis. By contrast the performance of non-financial companies more difficult to predict.

The study of the impact of transnational acquisitions on performance is important to gain understanding about the effects of not only some economic factors but also cultural and political factors [18, 15]. Wan and Wong [16] concluded that the political opposition to international takeovers may adversely affect the market value of domestic firms in two aspects. First, the political obstacles to acquiring foreign companies can reduce the possibility of takeovers. Thereby reduction in takeover premium is expected. According to Eun *et al.*, [3] and Harris and Ravenscraft [5], the share price of target companies reacts well to the announcement of the international takeover and creates barriers to foreign acquirers and that finally reduce the potential bidders for domestic target companies. Second, these barriers may hamper the potential benefits derived from international takeovers. This argument is supported by Marr *et al.* [10] who provide evidence that a foreign bidder can increase competition in the market for corporate control.

Since financial institutions were the one that received greater proportion of IMF monies during the monetary crisis of the year 1998-2000 and the sale of the companies have created heated controversy, the focus of this research is on the performance of international takeovers in banking industry. However, in doing so other types of industry as well as type of ownership (non-state-owned) were also investigated. The purpose of this study is to examine whether there are differences in acquisition performance between

state-financial institutions vs. non-state-nonfinancial institutions. Compared to prior cross border merger and acquisition studies, the unique features of this research are twofold. First, the focus other this study is on the sale of state-owned companies, rather than private companies. Politics may also play role. Hence, richer theories are consequently needed. Second, from methodology standpoint, this study applied a quasi-experimental design to neutralize the effect of ownership and industry in the hypothesis testing. Lastly, this research used accounting measures to investigate the performance of international takeover during economic crisis. Today (2011-2012) we once more witness almost similar financial crisis happening across Europe. Indonesia experience regarding the effect of state-owned company sales could provide important lesson to European countries and similar measures might be used.

The rest of this paper would be organized as follows. Section II discusses the literature review and key concepts. Section III discusses the research models and the hypotheses of this study. Section IV presents empirical evidence on international takeovers between private and non-private companies in the period of cover Section V discusses the conclusions of this study.

2. Literature Review and Key Concepts

Political theory can be defined as a discipline that aims to explain, justify, or criticize the disposition of power in society, describing the balance of power between 'force' states, groups and individuals. Word in this definition is widely used: even obedience is the aspect of power. Power lies in the resources (personal, economic, moral, ideological, etc.), and operates through persuasion, threats and taxes as well as the deployment of resources. The analysis from political perspective might help to answer these questions logically, and criticized the other answers given, with a deal on political issues at a more abstract and general. A political theory can be used to test the national factors to explain the acquisition of cross-national pattern of state and analyze the strategies of relevant actors. Based on research on international takeovers, strategy, culture, and politics contribute to the implementation of international takeovers, and above all, politics has contributed greatly to the final acquisition policy.

The analysis of trend in international takeovers plays an important role in explaining the current economic phenomenon, e.g., international takeovers, where economic-efficiency perspectives and political factors gained public attention [9]. In this circumstance, acquisition strategies would be dominated by political economy reasons and efficiency would be of secondary importance. Wide variation of foreign ownership of a company's assets in developing countries is largely driven by political actors to pursue domestic strategies and objectives. Politicians have the power to influence the redistribution of wealth to the corporation by way of corporate taxes, regulations, and

subsidies. In addition, certain groups of voters have an incentive to lobby for the expropriation, nationalization, break-ups or industry regulations or corporation which in turn will provide an incentive to politicians to propose such measures [17].

Based on Watts and Zimmerman's [17] work, Milne [11] concluded that despite the weaknesses of positive accounting theory as suggested by Gray *et al.* [4], political cost theory prediction upon corporate social behavior is valid. Focus of attention in political theory discussion is the public and politicians and their relationship with monopoly power. Environmental deterioration and other related problems such as resource depletion, labor exploitation, production of unsafe products, which are caused by big companies, have recently draw public and political attention. Those problems also represent the potential for abuse of power done by big companies and could increase what Watts and Zimmerman [17] mention as political costs. This makes these companies become clear targets for public criticism. Similarly, the next reference them in 1986 emphasized the attention of the press and politicians with a size advantage and potential monopoly abuse.

Entrepreneur politicians¹ could use their "financial advantage" from their private companies to boost their "political power" which later would likely benefit their private companies economically. The political behavior may include providing gratuity for both other politicians and civil servant bureaucrats. The expenses cover spending for managerial generosity, free help, providing sports membership, travel expenses for attending seminars, or simply cash. Western literatures may categorize those spending as "political costs" even though in many Asian countries the essence are totally different because the spending is political benefits and from accounting standpoint could create real future streams of cash inflows. The Indonesia corruption Law No 20 which was released in 2001 states that some gratuities are illegal. Nonetheless news media until recently still expose such kind of spending. Given the difference nature, a question may be raised whether the effects of political costs to management behavior from Western perspectives is relevant for the Indonesia case.

2.1. Performance Measures

Different measures of acquisition performance have been used in prior studies. For instance stock market returns of acquirers have been used in Carow, Heron and Saxton [1] and Datta and Puia [2]. On the other hand, accounting profitability measures have been used in (e.g.) Hitt, Harrison, Ireland and Best [6]. Schoenberg [13] argues that some of the conflicting conclusions within the acquisitions literature may

be due, in part, to the adoption of different performance metrics. Further, he cautions that inconsistent use of the available performance measures may have held back knowledge development (see also [7]). To avoid the problem, this study used both accounting measures (financial ratios) and stock returns to measure companies' financial performance.

2.2. Accounting Measures

Financial ratios show the relationship between numbers in the companies' balance sheet statement and income statement. Financial ratios that were used in this study include the following ratios:

- Liquidity ratios, including: current ratio (CR) and quick ratio (QR).
- The ratio of activities, including: fixed asset turnover (FATO), and total asset turnover (TATO).
- Leverage ratios, including: debt to total assets (DTA)
- Profitability ratios, including: operating profit (OPM), net profit margin (NPM), return on investment (ROI) and return on equity (ROE).

Liquidity ratios measure a company's ability to meet immediate (short run) financial obligations. Liquidity ratio in this study includes current ratio and quick ratio. Current ratio is calculated by dividing current assets by liabilities lincer, while the ratio is calculated by subtracting Quick inventory of current assets and the remainder divided by current liabilities.

Activity ratio is a measure of how efficient is the company manages its assets. The ratio is measured by dividing various assets from total sales. Activity ratios used in this study include: fixed asset turnover and total asset turnover. Fixed asset turnover measures how effectively a company uses its fixed assets, calculated by dividing net sales by fixed sales. Total asset turnover measures the velocity of all assets, calculated by dividing the total sales and assets. Leverage ratio is calculated from the ratio of debt to total assets and capital of the company itself and the related guarantees, which measures the ability of companies to repay debt at a time when the company is liquidated or dissolved. In this study include the leverage ratio of debt to total assets ratio, which measures how much the entire debt secured by all assets of the company, calculated by dividing total liabilities by total assets.

Profitability ratios measure a company's ability to generate profits. The profitability ratios used in this study include: Operating profit margin, net profit margin, Return on Investment Return on Equity. These measures are probably viewed the important measures by public, since these measure are directly related with firms ability to create wealth to shareholders. Operating profit margin measures the number of operating income generated from the sales or income that is calculated by dividing operating profit by sales. Net profit margin measures how much net profit after tax and interest that can be generated from the sales or

11 They are businessmen of small, medium, and big companies who choose to become politicians. In fact many Indonesia political party leaders are businessmen. For instance, Aburizal Bakrie (of Golkar), Surya Paloh (of Nasdem), Megawati (of PDIP), and Prabowo (of Gerindra).

revenues, calculated by dividing the net profit to sales, return on investment measures the profit generated from all company-owned assets. Return on Equity (ROE) measures how much net income can be generated from the investment of shareholders in a company. ROE is calculated by dividing the net profit to equity owners.

2.3. Stock Returns

Stock returns are gains earned by stockholders and they represent shareholders' wealth. Stock returns were used to measure companies' abnormal returns (AR) which were basically differences between actual stock returns and expected returns. This study used the market model of stock returns [17]:

$$R_{it} = \alpha_i + \beta_i \cdot R_{mt} + \epsilon_{it} \quad (1)$$

Where the R_{it} is monthly stock returns, R_{mt} is market returns (measured using IHSI, Indonesia composite index). To calculate AR we need to estimate α and β of mode; (1) during estimation period and then we use both regression parameter to calculate AR (see also formula 2 and 3 below). The α is intercept of the market model and β resembles the systematic risk. ϵ_{it} is a random error. Model parameters, α_i and β_i , are estimated by regression of R_{it} and the R_{mt} for the proper estimation period. The parameters then would be used to calculate the estimated normal returns $E(R_i)$ for each firm i during event windows. The abnormal earnings (AR) is defined as as follows:

$$AR = R_{it} - E(R_i) \quad (2)$$

$$AR = R_{it} - \{\alpha_i + \beta_i \cdot R_{mt}\} \quad (3)$$

Most of the previous literature using monthly returns, this is because the monthly data has a higher consistency and supports a more stable parameter estimates or reliable. Empirical evidence from international studies from the United Kingdom and the United States show that in the short term, acquisitions would benefit more for the target company's shareholders. The wealth transfer from acquirer shareholders to acquired shareholders is consistent with Eun *et al.* [3]. This is due to overestimation made by acquirer firm managers when estimating the capacity of the target company to create value acquisition. In the long run, Tuch and O'Sullivan [14] showed that the acquirer's shareholder returns in the long term is negative. Theoretically, after the acquisition the company size increases because the assets, liabilities and equity firms are merged together. If the new management could really use the assets effectively then *ceteris paribus* post-acquisition performance should be better than before the acquisition.

3. Research Model and Hypotheses

While corporate managers have an incentive to choose accounting procedures and to lobby with the politicians and bureaucrats for accounting procedures that reduce the net

income reported in financial statements, as discussed before the politicians have the power to influence them. According to Watts and Zimmerman [17], companies need the help of planning and advertising tools such as social responsibility in the media, including the government and to choose the accounting rules in order to report the minimum value of corporate profits and revenues. This strategy is important for the sustainability of the company because management can reduce the likelihood of different activities and reduce expected costs by reporting lower earnings [11]. Given this argument, the research hypothesis is stated as follows:

H1: There is no significant difference in cross border performance between state-owned financial companies and other type of companies (i.e., privately owned banks, state owned nonfinancial institutions, and privately-owned nonfinancial companies).

H2: There is significant difference in cross border performance among state-owned non-financial companies, private financial companies, and private nonfinancial companies.

Given lack of prior research findings Hypothesis 1 (H1) is stated as the null hypothesis. We expect that the possibility of political costs in the highly regulated industry (such as banking industry) would reduce management motivation to attract attention from public and regulators. In this situation one of the alternatives that management likely to play is by averaging its performance. Nonetheless it is not managerial hubbrih type of action because in this situation management intentionally lowering or reducing performance different with other type of companies.

H2 is stated as an alternative hypothesis. Despite lack of prior research findings, there is strong argument that since state non-financial companies are regulated less compared to financial institutions (banks), their financial statements may reflect better the economics nature of the business. In such situation we expect that the performance measure being used in this study would capture the dynamic of the business. This hypothesis is a complement of H1. When the H2 is supported and when further post-hoc analysis suggests that the performance of state-owned nonfinancial cross border acquisition is higher, then the evidence is stronger that the state companies were sold too cheap.

3.1. Sample and Data Collection

The study population is all public companies listed in Jakarta Stock Exchange (JSE) in the 2000-2010 timeframe. This study applied a purposive sampling method. Since its focus is on international takeover, several criteria were developed for the acquired and the acquirer companies. Sample of acquiring companies (acquirers) were chosen based on the following criteria: a) acquisitions were done during the period 2000-2010 and have been listed on the Jakarta Stock Exchange (JSE), b) The acquirers are foreign companies and the acquired are local companies. The acquired companies must satisfy the following criteria: a) the

company experienced a shift in the form of transfer of ownership of the stock ownership of more than 50% of the shares are acquired by another company. b) have a clear statement about when the company is acquired, c) have financial statement data and stock prices for a period of one to two years before and after the acquisition. Data and data sources used in this study is secondary data obtained from the data of financial statements and the company's stock price data sample comes from the Indonesian Capital Market Directory (ICMD) and Database Corner JSE MM-UGM.

Table 1. List of Sample Companies

Classification	Acquired Companies	Acquiring Firm	Month, Year of Acquisitions	
State owned – Bank	BCA	Farallon Capital-Led Consortium	June 2002	
	Bank Niaga	Commerce Assets	November 2002	
	Bank Danamon	Temasek led Consortium	June 2003	
State owned– Non Bank	Indosat	Qatar Telkom	June 2008	
	PT Telkom		Desember 2000	
	PT Semen Cibinong	Holcim Ltd	November 2001	
Non State owned– Bank	Indocement Tunggal	Heidelberger Zement AG	April 2011	
	Lippo Bank	Khasanah Nasional Berhard	August 2005	
	Bank Tabungan dan Pembangunan Nasional	Texas Pasific Group	March 2008	
	Bank Permata	Standart Chartered Bank	November 2004	
	Bank Internasional Indonesia	Temasek	Oktober 2003	
	Non state owned – Non Bank	Bentoel	BAT	June 2009
		HM Sampoerna	Phillip Morris	March 2005
		Aqua Golden Mississippi	Danone	April 2000
		Ades Water Indonesia	Water Partners Bottling	July 2004

Source: BEJ, Indonesian Capital Market Directory

3. 3. Statistical Analysis

To investigate the effect of government ownership on the cross-border performance, this study use ANOVA and mean comparison (post-hoc analysis) to test firm performance difference between groups of companies. The research design is shown in figure 1. When comparison was done for state-owned bank (financial) institution (cell A) and state-owned nonfinancial institution (cell B), then the results would suggest industrial effect on acquisition performance, eliminating the effect of government ownership. Similar conclusion could also be drawn when cell C was compared with cell D. when cell A and cell C was compared, or when cell B was compared with cell D, then the results would indicate the effect of ownership (state vs. privately owned), eliminating the effect of industry. To test the first hypothesis, we conduct means comparison of A vs. B vs. C vs. D. To test the second hypothesis, we conduct means comparison of B vs. C. vs. D.

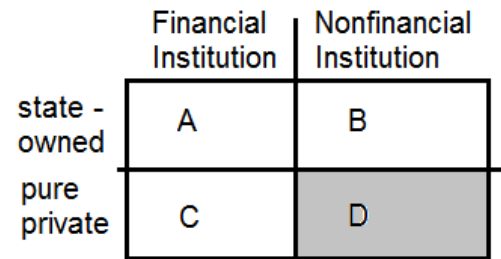


Figure 1. Research Design

4. Results and Discussion

4.1. Descriptive Statistics

Table 2 and table 5 show the descriptive statistics for the financial ratios and abnormal returns respectively. The table shows that all of the ratios, except ROI of private non banks, are positive. In CR (current ratio) sizes of the means seem to be divided between industries. In QR and FATO state-owned non bank seems to be different compares to the rest of the sample. In TATO the private- non bank seem to be different from the rest. ROE of state-owned bank seem to be the lowest one. Table 5 shows that market react negatively to state-owned non bank and private bank acquisitions by foreign investors.

Table 2. Descriptive Statistic – Financial Ratios

		N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
CR	STATE-OWNED BANK	12	.29083	.287164	.082897	.090	.860
	STATE-OWNED NON BANK	16	1.73937	1.790376	.447594	.040	7.760
	BANK NON STATE-OWNED	16	.16875	.101382	.025346	.070	.420
	NON BANK NON STATE-OWNED	16	1.63813	1.168944	.292236	.330	4.070
	Total	60	1.00383	1.314787	.169738	.040	7.760
QR	STATE-OWNED BANK	12	.21167	.260413	.075175	-.070	.710
	STATE-OWNED NON BANK	16	1.57687	1.758309	.439577	.020	7.640
	BANK NON STATE-OWNED	16	.09563	.094514	.023629	-.020	.310
	NON BANK NON STATE-OWNED	16	.63438	.397659	.099415	.220	1.340
	Total	60	.65750	1.093864	.141217	-.070	7.640
FATO	STATE-OWNED BANK	12	9.19583	2.962755	.855274	5.960	15.880
	STATE-OWNED NON BANK	16	.45938	.147308	.036827	.200	.730
	BANK NON STATE-OWNED	16	5.15063	2.391456	.597864	2.490	11.040
	NON BANK NON STATE-OWNED	16	5.10000	3.399810	.849952	.710	12.360
	Total	60	4.69517	3.888561	.502011	.200	15.880
TATO	STATE-OWNED BANK	12	.12583	.020652	.005962	.090	.160
	STATE-OWNED NON BANK	16	.30375	.081721	.020430	.130	.500
	BANK NON STATE-OWNED	16	.12500	.041473	.010368	.070	.200
	NON BANK NON STATE-OWNED	16	1.45375	.486784	.121696	.590	2.330
	Total	60	.52717	.620842	.080150	.070	2.330
DTA	STATE-OWNED BANK	12	.89833	.046872	.013531	.770	.950
	STATE-OWNED NON BANK	16	.73125	.431816	.107954	.500	2.200
	BANK NON STATE-OWNED	16	.91938	.047815	.011954	.860	1.070
	NON BANK NON STATE-OWNED	16	.55750	.150311	.037578	.230	.830
	Total	60	.76850	.276030	.035635	.230	2.200
OPM	STATE-OWNED BANK	12	.18333	.124924	.036063	.010	.440
	STATE-OWNED NON BANK	16	.24875	.216637	.054159	-.110	.690
	BANK NON STATE-OWNED	16	.06062	.297018	.074254	-.900	.260
	NON BANK NON STATE-OWNED	16	.02688	.178390	.044597	-.560	.180
	Total	60	.12633	.232247	.029983	-.900	.690
NPM	STATE-OWNED BANK	12	.17000	.076277	.022019	.040	.310
	STATE-OWNED NON BANK	16	.48500	1.114839	.278710	.010	4.630
	BANK NON STATE-OWNED	16	.03875	.340311	.085078	-1.040	.440
	NON BANK NON STATE-OWNED	16	-.02750	.311309	.077827	-1.180	.120
	Total	60	.16633	.642880	.082995	-1.180	4.630
ROI	STATE-OWNED BANK	12	.02083	.009003	.002599	.010	.040
	STATE-OWNED NON BANK	16	.12625	.242401	.060600	.000	1.020
	BANK NON STATE-OWNED	16	.00500	.040000	.010000	-.130	.030
	NON BANK NON STATE-OWNED	16	-.00625	.390980	.097745	-1.440	.280
	Total	60	.03750	.239212	.030882	-1.440	1.020
ROE	STATE-OWNED BANK	12	.87750	.770078	.222302	.010	2.100
	STATE-OWNED NON BANK	16	2.37750	2.833458	.708365	.030	12.030
	BANK NON STATE-OWNED	16	1.02563	1.620325	.405081	-.640	4.450
	NON BANK NON STATE-OWNED	16	1.77625	2.488499	.622125	-.990	8.050
	Total	60	1.55667	2.181668	.281652	-.990	12.030

Source: JSX Data

4.2. Test of Hypothesis One (H1)

To test the first hypothesis an analysis of variance was conducted using financial ratios and abnormal returns data. The purpose of the analysis is to investigate whether the mean performance of the state-owned bank is significantly different from the mean performance of the other types of companies. Performance was measured using (a) the difference between average two years financial ratios after and two years financial ratios before acquisition and (b) abnormal return -5 to +5 months surrounding the event month. The results are presented in table 3, table 4, and table 5.

Table 3. ANOVA of Various Financial Ratios

		Sum of Squares	df	Mean Square	F	Sig.
CR	Between Groups	32.352	3	10.784	8.672	.000
	Within Groups	69.639	56	1.244		
	Total	101.991	59			
QR	Between Groups	20.969	3	6.990	7.887	.000
	Within Groups	49.627	56	.886		
	Total	70.596	59			
FATO	Between Groups	536.084	3	178.695	28.105	.000
	Within Groups	356.049	56	6.358		
	Total	892.133	59			
TATO	Between Groups	19.056	3	6.352	96.530	.000
	Within Groups	3.685	56	.066		
	Total	22.741	59			
DTA	Between Groups	1.301	3	.434	7.603	.000
	Within Groups	3.194	56	.057		
	Total	4.495	59			
OPM	Between Groups	.506	3	.169	3.530	.020
	Within Groups	2.676	56	.048		
	Total	3.182	59			
NPM	Between Groups	2.487	3	.829	2.120	.108
	Within Groups	21.898	56	.391		
	Total	24.384	59			
ROI	Between Groups	.177	3	.059	1.032	.385
	Within Groups	3.199	56	.057		
	Total	3.376	59			
ROE	Between Groups	21.599	3	7.200	1.555	.210
	Within Groups	259.222	56	4.629		
	Total	280.821	59			

Source: JSX

Table 4. Results of the Multiple Means Comparison of Financial Ratios

Dependent Variable	(I) Emiten	(J) Emiten	Mean Difference (I-J)	Std. Error	Sig.
CR	STATE-OWNED BANK	STATE-OWNED NON BANK	-1.448542*	.425855	.001
		BANK NON STATE-OWNED	.122083	.425855	.775
		NON BANK NON STATE-OWNED	-1.347292*	.425855	.003
	STATE-OWNED NON BANK	STATE-OWNED BANK	1.448542*	.425855	.001
		BANK NON STATE-OWNED	1.570625*	.394265	.000
		NON BANK NON STATE-OWNED	.101250	.394265	.798
	BANK NON STATE-OWNED	STATE-OWNED BANK	-.122083	.425855	.775
		STATE-OWNED NON BANK	-1.570625*	.394265	.000
		NON BANK NON STATE-OWNED	-1.469375*	.394265	.000
	NON BANK NON STATE-OWNED	STATE-OWNED BANK	1.347292*	.425855	.003
		STATE-OWNED NON BANK	-.101250	.394265	.798
		BANK NON STATE-OWNED	1.469375*	.394265	.000
QR	STATE-OWNED BANK	STATE-OWNED NON BANK	-1.365208*	.359494	.000
		BANK NON STATE-OWNED	.116042	.359494	.748
		NON BANK NON STATE-OWNED	-.422708	.359494	.245
	STATE-OWNED NON BANK	STATE-OWNED BANK	1.365208*	.359494	.000
		BANK NON STATE-OWNED	1.481250*	.332827	.000
		NON BANK NON STATE-OWNED	.942500*	.332827	.006
	BANK NON STATE-OWNED	STATE-OWNED BANK	-.116042	.359494	.748
		STATE-OWNED NON BANK	-1.481250*	.332827	.000
		NON BANK NON STATE-OWNED	-.538750	.332827	.111
	NON BANK NON STATE-OWNED	STATE-OWNED BANK	.422708	.359494	.245
		STATE-OWNED NON BANK	-.942500*	.332827	.006
		BANK NON STATE-OWNED	.538750	.332827	.111
FATO	STATE-OWNED BANK	STATE-OWNED NON BANK	8.736458*	.962918	.000
		BANK NON STATE-OWNED	4.045208*	.962918	.000
		NON BANK NON STATE-OWNED	4.095833*	.962918	.000
	STATE-OWNED NON BANK	STATE-OWNED BANK	-8.736458*	.962918	.000
		BANK NON STATE-OWNED	-4.691250*	.891489	.000
		NON BANK NON STATE-OWNED	-4.640625*	.891489	.000
	BANK NON STATE-OWNED	STATE-OWNED BANK	-4.045208*	.962918	.000
		STATE-OWNED NON BANK	4.691250*	.891489	.000
		NON BANK NON STATE-OWNED	.050625	.891489	.955
	NON BANK NON STATE-OWNED	STATE-OWNED BANK	-4.095833*	.962918	.000
		STATE-OWNED NON BANK	4.640625*	.891489	.000
		BANK NON STATE-OWNED	-.050625	.891489	.955
TATO	STATE-OWNED BANK	STATE-OWNED NON BANK	-.177917	.097962	.075
		BANK NON STATE-OWNED	.000833	.097962	.993
		NON BANK NON STATE-OWNED	-1.327917*	.097962	.000
	STATE-OWNED NON BANK	STATE-OWNED BANK	.177917	.097962	.075
		BANK NON STATE-OWNED	.178750	.090695	.054
		NON BANK NON STATE-OWNED	-1.150000*	.090695	.000
	BANK NON STATE-OWNED	STATE-OWNED BANK	-.000833	.097962	.993
		STATE-OWNED NON BANK	-.178750	.090695	.054
		NON BANK NON STATE-OWNED	-1.328750*	.090695	.000
	NON BANK NON STATE-OWNED	STATE-OWNED BANK	1.327917*	.097962	.000
		STATE-OWNED NON BANK	1.150000*	.090695	.000
		BANK NON STATE-OWNED	1.328750*	.090695	.000

DTA	STATE-OWNED BANK	STATE-OWNED NON BANK	.167083	.091206	.072
		BANK NON STATE-OWNED	-.021042	.091206	.818
		NON BANK NON STATE-OWNED	.340833*	.091206	.000
	STATE-OWNED NON BANK	STATE-OWNED BANK	-.167083	.091206	.072
		BANK NON STATE-OWNED	-.188125*	.084441	.030
		NON BANK NON STATE-OWNED	.173750*	.084441	.044
	BANK NON STATE-OWNED	STATE-OWNED BANK	.021042	.091206	.818
		STATE-OWNED NON BANK	.188125*	.084441	.030
		NON BANK NON STATE-OWNED	.361875*	.084441	.000
	NON BANK NON STATE-OWNED	STATE-OWNED BANK	-.340833*	.091206	.000
		STATE-OWNED NON BANK	-.173750*	.084441	.044
		BANK NON STATE-OWNED	-.361875*	.084441	.000
OPM	STATE-OWNED BANK	STATE-OWNED NON BANK	-.065417	.083483	.437
		BANK NON STATE-OWNED	.122708	.083483	.147
		NON BANK NON STATE-OWNED	.156458	.083483	.066
	STATE-OWNED NON BANK	STATE-OWNED BANK	.065417	.083483	.437
		BANK NON STATE-OWNED	.188125*	.077291	.018
		NON BANK NON STATE-OWNED	.221875*	.077291	.006
	BANK NON STATE-OWNED	STATE-OWNED BANK	-.122708	.083483	.147
		STATE-OWNED NON BANK	-.188125*	.077291	.018
		NON BANK NON STATE-OWNED	.033750	.077291	.664
	NON BANK NON STATE-OWNED	STATE-OWNED BANK	-.156458	.083483	.066
		STATE-OWNED NON BANK	-.221875*	.077291	.006
		BANK NON STATE-OWNED	-.033750	.077291	.664
NPM	STATE-OWNED BANK	STATE-OWNED NON BANK	-.315000	.238801	.193
		BANK NON STATE-OWNED	.131250	.238801	.585
		NON BANK NON STATE-OWNED	.197500	.238801	.412
	STATE-OWNED NON BANK	STATE-OWNED BANK	.315000	.238801	.193
		BANK NON STATE-OWNED	.446250*	.221086	.048
		NON BANK NON STATE-OWNED	.512500*	.221086	.024
	BANK NON STATE-OWNED	STATE-OWNED BANK	-.131250	.238801	.585
		STATE-OWNED NON BANK	-.446250*	.221086	.048
		NON BANK NON STATE-OWNED	.066250	.221086	.766
	NON BANK NON STATE-OWNED	STATE-OWNED BANK	-.197500	.238801	.412
		STATE-OWNED NON BANK	-.512500*	.221086	.024
		BANK NON STATE-OWNED	-.066250	.221086	.766
ROI	STATE-OWNED BANK	STATE-OWNED NON BANK	-.105417	.091276	.253
		BANK NON STATE-OWNED	.015833	.091276	.863
		NON BANK NON STATE-OWNED	.027083	.091276	.768
	STATE-OWNED NON BANK	STATE-OWNED BANK	.105417	.091276	.253
		BANK NON STATE-OWNED	.121250	.084505	.157
		NON BANK NON STATE-OWNED	.132500	.084505	.123
	BANK NON STATE-OWNED	STATE-OWNED BANK	-.015833	.091276	.863
		STATE-OWNED NON BANK	-.121250	.084505	.157
		NON BANK NON STATE-OWNED	.011250	.084505	.895
	NON BANK NON STATE-OWNED	STATE-OWNED BANK	-.027083	.091276	.768
		STATE-OWNED NON BANK	-.132500	.084505	.123
		BANK NON STATE-OWNED	-.011250	.084505	.895
ROE	STATE-OWNED BANK	STATE-OWNED NON BANK	-1.500000	.821618	.073
		BANK NON STATE-OWNED	-.148125	.821618	.858
		NON BANK NON STATE-OWNED	-.898750	.821618	.279

	STATE-OWNED NON BANK	STATE-OWNED BANK	1.500000	.821618	.073
		BANK NON STATE-OWNED	1.351875	.760671	.081
		NON BANK NON STATE-OWNED	.601250	.760671	.433
	BANK NON STATE-OWNED	STATE-OWNED BANK	.148125	.821618	.858
		STATE-OWNED NON BANK	-1.351875	.760671	.081
		NON BANK NON STATE-OWNED	-.750625	.760671	.328
	NON BANK NON STATE-OWNED	STATE-OWNED BANK	.898750	.821618	.279
		STATE-OWNED NON BANK	-.601250	.760671	.433
		BANK NON STATE-OWNED	.750625	.760671	.328

*. The mean difference is significant at the 0.05 level.

Source: JSX Data

Table 5. Descriptive Statistic - Abnormal Returns

	N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
STATE-OWNED BANK	71	.0017772	.03263780	.00387339	-.07400	.07075
STATE-OWNED NON BANK	71	-.0002523	.01778499	.00211069	-.05017	.05813
NON STATE-OWNED BANK	71	-.0000983	.01908251	.00226468	-.04556	.04433
NON STATE-OWNED NON BANK	71	.0077315	.02306972	.00273787	-.06574	.07124
Total	284	.0022895	.02395792	.00142164	-.07400	.07124

Table 3 shows ANOVA of the financial ratios. The table shows that six out of nine ANOVAs suggest that there are significant differences (p -values $< 0,05$) in performance means. Further investigation regarding which ratios have significant results was done and the results are available in table 4. When performance is measured using profitability ratios the results are consistent with the hypotheses that there is no difference in performance. This finding supports opponents' view regarding the international takeover that the sale of state-owned banks would not improve the performance of the companies. It becomes clearer that the motivation behind the transaction is merely for satisfying IMF requirement, if not moral hazard. Table 5 shows results from capital market data. When performance is measured using market reaction (AR, abnormal returns) during the period of the transaction, AR shows also consistent finding with finding based on financial ratios data.

Table 6. ANOVA of Abnormal Returns

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.003	3	.001	1.747	.158
Within Groups	.159	280	.001		
Total	.162	283			

Table 7. Results of Multiple Means Comparison of Abnormal Returns

(I) Emiten	(J) Emiten	Mean Difference (I-J)	Std. Error	Sig.
STATE-OWNED BANK	STATE-OWNED NON BANK	.00202951	.00400518	.613
	NON STATE-OWNED BANK	.00187548	.00400518	.640
	NON STATE-OWNED NON BANK	-.00595435	.00400518	.138
STATE-OWNED NON BANK	STATE-OWNED BANK	-.00202951	.00400518	.613
	NON STATE-OWNED BANK	-.00015403	.00400518	.969
	NON STATE-OWNED NON BANK	-.00798385*	.00400518	.047
NON STATE-OWNED BANK	STATE-OWNED BANK	-.00187548	.00400518	.640
	STATE-OWNED NON BANK	.00015403	.00400518	.969
	NON STATE-OWNED NON BANK	-.00782983	.00400518	.052
NON STATE-OWNED NON BANK	STATE-OWNED BANK	.00595435	.00400518	.138
	STATE-OWNED NON BANK	.00798385*	.00400518	.047
	NON STATE-OWNED BANK	.00782983	.00400518	.052

*. The mean difference is significant at the 0.05 level.

4.3. Test of Hypotheses Two (H2)

To test the second hypotheses, we also used the same tables for the first hypotheses test. As mentioned before the ANOVA (table 3) shows significant results. Further means comparison analysis for the state-owned non-bank companies, the private bank companies, and the private non-bank companies indicate that when performance is measured using profitability ratios then the results is significant (p-value < 0,05). Performance of state-owned non bank companies is significantly different from the other two types of companies. When performance is measured using abnormal returns, performance of state-owned non bank companies is significantly different only from performance of private non-bank companies. These findings suggest that, compared to state-owned bank, the performance of state-non bank companies is significantly improved after the sale. In addition, as mentioned before, non bank industry is less regulated (compared to financial industry). As the result, new management can implement better strategies more dynamically.

5. Conclusions

Findings of this study support the notion that the sale of state companies, in particular banking companies, would not result in better performance. The reasons why the post acquisition performance of financial institutions was not significantly different, i.e., would not perform better compared to other companies, are twofold. First, banking industry is a regulated industry. Consequently, dynamics of the strategy implementation is limited and accounting measures may not reflect quite well what they should represent. Second, as criticism states, the transaction (the sale of Indonesia banks) was merely to execute IMF recommendation. Even ten years later (today) people are still questioning the necessary of the sale and whether the transactions were valued based upon the most appropriate prices. All hypotheses are supported with slight mixed findings. However, there are limitations in this study. Those limitations include small sample size and short period of observation. Hence, longer observation period is needed to really investigate the effects of the acquisitions by foreign investors.

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