

Merger and Acquisition Policy Implementation on National Private Banking in Indonesia 2007-2011

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Abstract: *Economic crisis that occurred in European regional in 2007 and slowing recovery has negative impact for industries in Asian countries such as China, Malaysia and Indonesia especially in banking industry. Some banking in Indonesia crisis and many difficulties which led to banks collapse. Another impact have seen with number of banks that unhealthy which must be liquidated because it can not be saved again. Merger and acquisition policy driven by Bank Indonesia through single presence policy that national banks merged to become more efficient, more robust in capital so that has strong competitiveness internationally. This strategy considered able to bring change toward better. Crash condition policies and security threats that occurred on 2007-2010 worth further highlighted in this paper how merger and acquisition process on banking which carry out the policy with motives and interests by literature study.*

Keywords: Merger and acquisition, national private banking

1. Introduction

Economic crisis that occurred in European regional identified final quarter 2006 and slowing recovery has negative impact for industries in Asian countries such as China, Malaysia and Indonesia especially in banking industry. Some banking in Indonesia crisis and many difficulties which led to banks collapse. Another impact have seen with number of banks that unhealthy which must be liquidated because it can not be saved again.

One of way to handle these impacts to do merger and acquisition strategy policy. This strategy considered can save the banks that almost collapse and rebuild to stable state. Merger and acquisition, one of policy to handle world economic crisis better, according to Berger et al. (1998) there are 5 major changes in economy which encourage proliferation merger and acquisition activity that are technology advances, increased financial condition, excess capacity/financial failure, consolidation and deregulation international market.

Merger and acquisition began to be implemented in developing countries or experiencing crisis in developed countries such as United States, Germany and Japan with aim to gain maximum profit. In Indonesia, merger expected to form core banks with strong competitiveness and able to drive national economy. Merger and acquisition activity also supported by concept from economies of scale theory which explained that increased operation scale will come many economic advantages, such as increase efficiency, increase revenue and reduce risk (Hunter and Wall, 1989; Spiegel and Gart 1996).

Merger and acquisition policy driven by Bank Indonesia through single presence policy that national banks merged to become more efficient, more robust in capital so that has strong competitiveness internationally. The same encouragement also applies in securities firms, insurance and other with the same end goal anyway.

Merger in Indonesia generally regulated in Undang-undang No.1/1995 about Perseroan Terbatas, Peraturan Pemerintah

No. 27/1998 about Penggabungan, Peleburan dan Pengambilalihan Perseroan Terbatas, Peraturan Pemerintah No. 28/1999 about Merger, Konsolidasi dan Akuisisi Bank, and other regulations related. For open company, merger regulated in Peraturan Bapepam No. IX.G.1 about Penggabungan dan Peleburan Usaha Perusahaan Public atau Emiten.

From 25 private banking in Indonesia during period 2006-2010, listed in Jakarta Stock Exchange there are 5 private banks conducting merger and acquisition, only 13 banks were still operating and period last year, and there are 7 new national private bank listed in Jakarta Stock Exchange. Private bank that experienced merger and acquisition have capital adequacy ratio under Bank Indonesia provision about banking health that is below 8%, including Bank ekonomi, Bank Windu Kencana, Bank Capital Indonesia, Bank Nusantara Parahyangan and there are two Banks result from merger and acquisition policy namely Bank Bukopin and Bank CIMB Niaga.

Merger and acquisition strategy used by banking as decision and strategic measures that used to improve bank performance so that bank expected to be able to work efficiently and improve public confidence to bank and capable generating optimum profits. However, some researchers assessed condition that should not occur in banking merger would occur. Profit decrease, third party deposits and high outstanding loan amount, situation shows dieconomic of scale and this situation also supported by theory in hubris hypothesis which state that merger and acquisition will increase shareholder wealth because merger and acquisition motivation based on manager error in estimating acquisition value that is too high. High acquisition value reflects inability to manage conflict that would lead to decrease organizational performance.

Not easy to do merger and acquisition, because not only related to business and financial issues, but also matter of law, tax, accounting, licensing, management, labor even business culture from companies that will carry out merger and acquisition.

2. Literature

2.1 Merger and Acquisition Definition

Term "merger" derived from the verb "merge" which means "to combine or functioning" (Jhon M.E. & Hassan S, 1990; 378). Merger is incorporation two or more companies to form one company. While acquisition is a procedure where company bought property and take over liabilities from another company.

According to Smith (1996), bank merger intended to reduce labor cost, overhead cost and combine efficiencies that have been achieved by partner merger, and reduce branches number that overlapping operational level between one branch with another branch. Merger and acquisition used as restructuring and banking recapitalization efforts that do not have an ideal performance.

According to Damodaran, 2001, a company may be acquired companies in several ways, namely: merger (joining a company with another company), consolidation (new company that created after merger), tender over (a company buy outstanding shares in another company without target firm management approval) and acquisition of assets (a company buy another company assets through target firm shareholder approval).

Some kind of mergers that are vertical merger, horizontal merger and conglomerate merger. Vertical merger are companies that merged and operate at different levels in production and marketing. However, aiming to improve distribution. Whereas horizontal merger are companies merged because want to diversify, increase customer base, reduce cost, or offering product expansion. As well as latter is a conglomerate merger aims to boost sales revenue.

Acquisition is a company take over by other companies that can be taken in two ways, first with take over assets which acquired entity. For example, machines, factories. Second way, buy shares from company that took over (Rudhi Prasetya, 1995).

2.2 Merger and Acquisition Motives

In principle there are two motives that drive a company do merger and acquisition that economic motif and non-economic motif. Economic motif related to company's goal essence that is increase company value or maximizing shareholder wealth. On the other hand, non-economic motif is motif that is not based on company's goal essence, but based on subjective desire or personal ambition owner or management company (Moin, 2003).

Merger and acquisition have economic motives which long term objective to achieve an increase value. Therefore, all activities and decision making should be directed to achieve that goal (Chatterjee and Wernefelt, 1991).

One of motivation or main reason corporate merger and acquisition to create synergy. Synergy is overall company value after merger and acquisition that greater than value addition of each company before merger and acquisition. Synergy generated through combination of simultaneous

activity from power or more elements merged company.

Synergy effect can arise from four sources, namely (1) Operating saving, resulting from economies scale in management, marketing, production or distribution; (2) Financial saving which include lower transaction cost and better evaluation by security analysis; (3) Efficiency difference which means that management one of company more efficient and weak corporate assets will be more productive after merger; (4) Market possession improvement due to reduced competition (Brigham and Houston, 2001).

Diversification is a business development strategy that can be done through merger and acquisition. Diversification to support business activity and company operation for secure a competitive position. However, if an increasingly diversify away from its original business, then company no longer in the corridor that support core competence.

Merger and acquisition activities sometimes undertaken not for economic interest but also to non-economic interest such as prestige and ambition. Non-economic motif can be derived from company management or company owner. Merger and acquisition occurrence due to top managers want to increase influence, power, prestige and status (Mueller, 1969).

According to Brigham and Houston (1998) several reasons merger and acquisition which often raised are synergy, tax consideration, buying asset below replacement cost, diversification, incentive for managers and break up value. Of the six most dominant reason is synergy reason.

2.3 Merger and Acquisition Purposes

A company uses merger and acquisition policy in order to increase market share and company added value through effort to create better efficiency. The policy expected can form a more solid bank, resilient and healthy, supported by strong capital and asset, business network and service wider sophisticated technology, human resource who more professional and banking products diversification are more varied, in addition merger and acquisition intended to form a leading bank and provide great benefits for shareholders, employees, customers, society as well as State in national economy as government partner financial institutions in the face of international economy.

3. Discussion

3.1 Financial Performance Analysis

To assess how merger and acquisition success, can be seen from company financial performance which do merger acquisition especially from financial performance including liquidity ratio is a ratio that measures company ability to fulfill financial obligation maturing in the short term. This ratio shows relationship between cash and other current assets from company. More greater the ratio, more liquid (Brigham and Houston.2006).

There are kecakupan ratio, composition, and projection (future trend) capital as well as ability in cover troubled asset. Capital aspect includes CAR (Capital Adequacy Ratio)

ratio, accordance with Bank Indonesia provision that banking must have minimum CAR 8% (PBI No. 6/ 10/PBI/2004 and next aspect that used is profitability that can be seen by Return On Assets (ROA) which indicates profit level derived by bank. A good and healthy company will generate rate of return good ROA (Surat Edaran Bank Indonesia No. 6/23/DPNP date 31 May 2004 about Sistem Penilaian Tingkat Kesehatan Bank Umum).

In the study period there are two national private banking that experienced merger and acquisition to national private bank, namely Bank CIMB Niaga and Bank Windu Kencana, two banks have different motives in making such policy.

Bank Cimb Niaga merger from Bank Lippo dan Bank Niaga, the two banks have soundness and good asset quality appropriate by Bank Indonesia even during this period the banks occupy top 10 Bank Board in Indonesia, namely in position 6 for Bank CIMB Niaga with assets Rp 54.82 trillion and Bank Lippo Rp 39.73 trillion. Merger policy conducted CIMB Niaga is motif to diversify its business and increase company value to gain maximize profits. Proved with merge two banks value asset owned by CIMB Niaga to be Rp 94.55 trillion ranks number 5 best national banking BI Data quarter 1-2008 (www.cimbniaga.com; www.BI.go.id).

In the study period national private bank conducting merger and acquisition with different motives namely Bank Multicor and Bank Windu which became Bank Windu Kentjana or which better known as "Bank Windu", is Bank Umum Devisa listed Indonesia Stock Exchange and merger result between PT Bank Multicor Tbk and PT Bank Windu Kentjana on February 8, 2008 conducted on 2007, acquisition activity conducted to rescue both of banks due to Bank Indonesia issued regulation about minimum core capital application Rp 80 billion on beginning 2008 and Rp 100 billion on beginning 2011. If not fulfilled the penalty is decreased grade (downgrade) from Bank Umum (commercial bank) to Bank Pekreditan Rakyat (BPR) whose activities more limited.

Finally, many commercial banks small capital which to be hunted investors to "save" the banks from class inheritance. Regulation about bank minimum capital requires banks to comply capital according BI regulation with various ways, either through additional equity, other bank acquired or merger with another. Condition that occurs when Bank Multicor has capital 211.11 billion rupiah. Bank Windu had 41.93 billion rupiah. Merger and acquisition policy implementation has economic motives to raise company value that share value owned companies remain attractive to investor, improve bank efficiency and increase its competitiveness.

3.2 Process or Merger and Acquisition Procedures on National Bank

Merger and acquisition process on the company and banking are not an easy thing, the policy requires long process and hard way. Procedures for merger or acquisition, first of all corporation director and commissioner obliged to make statement to Bapepam and shareholder general meeting (RUPS). Then statement should be supported by independent party to obtain public company or issuer RUPS approval.

The last, company must submit business combination statement to Bapepam containing Rancangan Penggabungan Usaha or Peleburan Usaha (Keputusan Direksi BI No.32/50/KEP/DIR/ date 14 May 1999). Requirements that must be completed as follow:

1. Deed Copy and changes each merged company.
2. Izin Usaha Tetap (IUT) copy for companies to carry on business activities. If do not have IUT, need to be fitted with BAP (news examination) by local BKMD.
3. RUPS treatise about approval to join from each company incorporated.
4. LKPM (capital investment financial statement) copy last period for PMA and PMDN that will carry on business activities.
5. Once requirement comes, corporate fill out the form at BKPM office with complete and attach merger application. Approval will be issued by Menives or BKPM head in approval letter form.

After company or banking do merger and acquisition need to follow up on business merging and together shall reconstitute RUPS which has been approved previous commissioners. Then made some regulations on changes in company nature and submitted to Bapepam no later than second working day after commissioner approval. Company incorporation shall be announced to public. If Bapepam not propose changes and additional information to corporate merger, the application deemed to have qualified.

Successful key of merger and acquisition strategy can work well if comply requirement as follows: Performed by utilizing advantages and cover shortfall owned by member bank usually leads to failure merger and acquisition process. Member bank need to have similar culture and company philosophy which not much contrast. Member bank has dedicated corporate leadership and able to resolve conflicts quickly, wise, prudent, and not authoritarian. Member bank have vision and mission that can be run by merged bank. Post merger implementation process needs done with product harmonization process and new service, employee dedication stabilization, platform establishment and procedure system which are uniform and efficient.

4. Conclusion and Recommendation

After monetary crisis which Indonesia undertaken directly nor domino effect from crisis and impact faced by some National Bank which part should be liquidated, emerging alternative strategy that are merger and acquisition policy as policy in banks maintaining which will collapse as well as improve performance National Bank in order to work and operate efficiently.

Mergers and acquisition process for banking have direct impact both positive and negative impacts as we describe above, depend on our perspective and strategy conducted by banking. Merger and acquisition successful attempt requires way which quite difficult for various parties who want to succeed in this policy implementing.

Merger and acquisition are complicated strategy, because not only deals with business issues, but also related to legal issues with laws that regulate, tax issues, accounting,

licensing, management, labor and business culture from corporate merger and acquisition.

Merger main advantage are simple and no big expense as another acquisition form. The reason that companies simply agreed to incorporate entire operation. For example, there is no desire to move company individual asset ownership which merged into main company. While main disadvantage that merger must be approved by voting rights from shareholders of each company. Notably, two-thirds (even more) from voting for approval. To obtain voting rights required will take a long time and process is not easy.

Basically national banks merger and acquisition are form of bank performance improvement efforts as well as bank rejuvenate almost bankrupt. Judging from cases listed above, impact generated after executing merger and acquisition both positive and negative impacts.

Although some facts to prove that banks conducting merger and acquisition obtain real benefit in profit terms but there are still weaknesses in lending. Probably not issue of merger and acquisition strategy but problems on the parties to merge or takeover process less effective.

Merger and acquisition on national bank can run successfully seen from how companies or banks that run a merger or acquisition with a good process and utilize advantages and cover shortages owned by member banks which usually causes failure of mergers and acquisitions process. Should the banks that will merger and acquisition do product harmonization process and new services, employee dedication stabilization, platform establishment and procedure system which are uniform and efficient in order to produce a good performance and according to vision and mission for merger commission.

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