Article Type: Research Paper

# THE ROLE OF FIRM REPUTATION AND MANAGEMENT EXPERIENCE FOR FIRM PERFORMANCE AFTER MERGER AND ACQUISITION

**Edi[1], Erni Susanti[1*]**

**Afiliation:**
[1]Accounting Departement, Faculty of Economics and Business, University Internasional, Batam, Indonesia

**Website:**
ejournal.umm.ac.id/index.php/jrak

***Correspondence:**
edi.king@uib.ac.id

**DOI:** 10.22219/jrak.v11i1.14067

**Citation:**
Edi, & Susanti, E. (2021). The Role of Firm Reputation and Management Experience for Firm Performance after Merger and Acquisition. *Jurnal Reviu Akuntansi Dan Keuangan, 11(1), 150-167.*

**Article Process**
**Submitted:**
October 22, 2021

**Reviewed:**
February 11, 2021

**Revised:**
February 17, 2021

**Accepted:**
February 18, 2021

**Published:**
May 5, 2021

Office:
Department of Accounting
University of
Muhammadiyah Malang
GKB 2 Floor 3.
Jalan Raya Tlogomas 246,
Malang, East Java,
Indonesia

P-ISSN: 2615-2223
E-ISSN: 2088-0685

## ABSTRACT

This study examines the impact of firm reputation and CEO experience to company performance after merger and acquisition. The sample of this research are companies listing on the Indonesia Stock Exchange and register their M&A action to the Indonesian Commission for the Supervision of Business Competition. The time frame for selecting data is from 2014 to 2019. The research data are tested and analyzed with multiple linear regression methods on SPSS Software by using 110 sample data. The results of the data test prove that the acquisition experience in the same industry and the measurement of the company's capitalization reputation have a significant positive impact on company performance. Following the concept of knowledge transfer theory and organizational theory, acquisition in same industry will increasing company value and performance in competing with other competitors with more focused and can create cost saving. These will have an effect on company performance by get a good response in public and achieve a competitive advantage. Novelty of this research provides a new insight for firm reputation measurement that are still relevant to be used for measure firm reputation. The managerial implication of this research will provide a new insight for management a new requirement when selecting a CEO for doing merger and acquisition and the relevant firm reputation measurement that the company should focusing developing.

**KEYWORDS:** Firm Performance; Firm Reputation; Management Experience; Merger and Acquisition.

## INTRODUCTION

Business competition in the era of globalization and digital economy has an impact on the growth of entities. Entities of all sizes are required to use existing technology to develop strategies to get ahead. In the increasingly fierce business competition, the strategies implemented must be competitive and endurance. They are in a race to integrate the trade tradition into a more perfect form and keep pace with the times (Prasetyono, 2017). It requires management to develop and design strategies and plans to improve performance or make the company better (Griffin, 2004). Management needs to consider the method of allocating capital and existing resources to entities in order to create opportunities and challenges when expanding market areas (Hitt *et al*., 2011).

Efforts can be made by expanding the scope of business. It can be expanded internally and externally (Calipha *et al*., 2010). An effective corporate strategy can strengthen the entity's foundation in competing with mergers and acquisitions. Entities expect that this strategy will become a future hope and a key point for company growth (Calipha *et al*., 2010). Many foreign companies prefer to do cross border merger and acquisitions. By choosing target companies in other regions can expand market share and reduce obstacles encountered in the international market (Tarigan *et al*., 2016). In terms of operational synergy, the company can reduce costs while increasing output. The company can also do cost saving in terms of production costs. In terms of financial synergy, the company can also save interest rates. Bank regulations impose restrictions on loans. This is assessed by the regulator based on liquidity, total company assets and company reputation. A company's reputation can be judged by obtaining lower capital loans (Calipha *et al*., 2010).

In 2018, in the annual report (KPPU, 2018) the Indonesian Competition Commission (ICC) received 78 notifications on share mergers, mergers and acquisitions. Compared with 2017, this number is expected to decline (Makki, 2018). The notified transaction amount exceeded 1,000 trillion rupiah. The analysis result of the notified transaction included 97.3% share purchases, and the rest were mergers. In addition, the three major countries that frequently conduct transactions in Indonesia is Japan, Singapore, and the United States. The foreign companies' acquisitions accounted for 13.85%. From an industrial perspective, manufacturing companies ranked highest. The other sectors have the most other transactions are energy and real estate industries

The study of merger and acquisition performance has been part of the study in strategy management, organization behavior, corporate finance, and international business literature for decades. From a large number of studies conducted, in general, the company's performance. Literature on mergers and acquisitions always changes from time to time. From 1991 to 1995 the direction of the research topic began with corporate partnership, performance, CEO and TMT, financial theory, and integration issues. From 1996 to 2000, the topics discussed were corporate partnership, diversification and corporate strategy, performance, CEO and TMT, resource based view and capabilities of the firm. In 2001 to 2005 the research topic was continued with corporate partnership, performance, diversification and corporate strategy, methodologies, theories and research issues, environmental modeling: government, social and political influence on strategy. In 2006 to 2010 the merger and acquisition research literature covered the topics of corporate partnership, performance, environmental modeling: government, social and political influence on strategy, corporate governance, resource-based view and capabilities of the firm (Ferreira et al., 2014). There are parts that have not been explored, namely the company's reputation and CEO experience, an experienced CEO will able to provide a better management skills or companies to managing merger and acquisition transaction by providing the better deal for the company (Edi et al., 2020) together with a good firm reputation in which the company consistently continues to achieve stakeholder expectations. This achievement will provide very valuable results for the company (J. J. Haleblian et al., 2017; Lange et al., 2011; Petkova et al., 2014; Pfarrer et al., 2010). The reputation of the acquisition company (J. J. Haleblian et al., 2017) and CEO acquisition experience (Edi et al., 2020) are an important element in assessing post-acquisition performance, which will influence consumers to continue choosing these products in the future. Consumers believe that an acquiring company with a good reputation will improve or maintain the product quality of the target company. Vice versa. Consumers who like an acquirer with a good reputation will still choose products from the target company. This is because they believe the acquirer will transfer competencies and assets (J. J. Haleblian et al., 2017) and an experienced CEO will be able to ensure the transition of acquisition will going according to the plan (Edi et al., 2020).

The research objectives are to understand whether the amount of experience of acquiring former directors, the number of acquisitions before the accumulated abnormal returns, the average number of acquisitions in the prior period, the number and percentage of successful acquisitions with a positive value of abnormal value in the prior period and the company reputation will affect the company's performance. The novelty of this research provide a more comprehensive measurement in measuring firm reputation by using few proxy measurement of firm reputation which is differentiate this research from the prior research and answering the research question given by (Edi et al., 2020) to know whether which firm reputation are still relevant to use so the company can focusing their resource by developing that area.

This study focuses on the theories about resource based theory for firm reputation and stewardship theory for the CEO's experience to approach in maximize company performance. Resource based theory is the theory proves by using company's internal resource like firm reputation to achieve goals of sustainable competitive advantage (Barney, 1991; Edi et al., 2019). The characteristic of management especially capable and more experience CEO. This position has a big task on creating and implementing a good strategy in develop internal resources, take the opportunities, build a strength to avoid the weakness and exploit the threats that will impact to performance (Smith & White, 1987).

The roleplay of CEO is creating high company value. The experience of directors proved in research on the influence of directors who hold multiple companies outside on firm performance by obtained a positive influence (Chen et al., 2015). This is due to the advantage of the reputation of a qualified individual director that is trusted to hold many outside director positions. Qualified executive positions with recognized management expertise certainly have strong incentives and effective performance in building their reputation as decision experts. Directors who hold multi-company positions are considered to have better operating performance and less often overestimate earnings. The company will also incur lower agency costs because a director with high reputation will not make decisions that damage the company's value (Smith & White, 1987). The director's information network and relationship with the business market can be a channel to advance the company's strategic moves. Behind the many advantages for company performance, Chen et al., (2015) also realize the disadvantages that can be caused if the director of multi companies has limited time, so that there is a failure in managerial supervision.

In this study, organizational theory are put forward by in carrying out an action or strategy that has goals and effects on the company (Levitt & March, 1988). Various experiences can be gathered when problems occur. The feedback from the strategy routine has an effect on management behavior in executing the strategy. Research conducted by Haleblian et al., (2006) resulted in the effect of the acquisition experience, acquisition behavior, and positive feedback which was significant positively on company performance. This is because routine can be a source of competitive advantage for companies that often play an important role in strategy formulation, so that they can make the right decisions. The company explores experiences, performance feedback from the results of acquisitions and interactions in the acquisition process, thus affecting the possibility of the company making further more acquisitions. Positive results on company performance will encourage the behavior of implementing this strategy in a sustainable condition.

Firm performance is defined as a method used to measure the success of managements in managing the company and to determine whether the management of the company meets the company's goals. All parties interested in a company, namely creditors, shareholders, the public and the government, need information about company performance (Isbanah, 2015). The task of management in running the company is to improve company performance. Management will look for opportunities to expand and expand the company's market share. The fact of management work is to inspire various company strategies to create a competitive advantage, and to provide the best returns for the company's stakeholders through mergers and acquisitions. Through merger and acquisitions will expanding the business more quickly because of the research and development product is not be required (Esterlina & Firdausi, 2017). The acquirer company's management will continue to use the company's existing resources to create new synergies in the competition with other competitors (Erden *et al.*, 2015). The selection of this growth strategies good for creating a high reputation in good partnership and a value for the company (Agnihotri, 2014).

Kiessling *et al.*, (2008) examined the relationship and knowledge of top managers on company performance and obtained significant positive results. This is due to the understanding and experience of the resources required to manage the company. Companies undergoing mergers and acquisitions need capable management so that the performance of the two companies can be well integrated to obtain good performance.

The results of the significant positive influence between experiences on company performance are also presented in research of Edi & Saputra, (2019) and Field & Mkrtchyan, (2017)which also examines the effect of the amount of experience and expertise of directors on company performance. Because the director's experience is used as a compass in guiding the company to the right acquisition target. The director's experience can also be used in overcoming information asymmetry on the target company to be acquired. Investors will be interested in companies that are acquiring high-profit companies (Ning *et al.*, 2014). Based on the above explanation, the first hypothesis of this research is :

***$H_1$* :** *Prior acquisitions have a positive significant effect on firm performance.*



The entire experience of acquisitions made in the prior period will be taken into account the average number of acquisitions in the prior period (Field & Mkrtchyan, 2017). The purpose of the calculation is to use the average number of acquisitions to describe the company's performance during the period determined by the number of acquisitions that have been made so that it can be used as a benchmark in the future.

Edi & Saputra, (2019) consider the company management will use an average number of prior acquisitions as a calculation to improve management performance in maximize the profit level. The calculation will helping management in monitoring and analyzing the strategic effect to the future company performance.

After the company's expansion strategy is planned, a management performance certificate for companies that can acquire many target companies over a period of time is required (Cho & Arthurs, 2018). The success of management can be measured by the company's high rate of return. It is expected that the above explanation will affect the relationship between the average number of acquisition experience and company performance. Then the second hypothesis of this research is:

***$H_2$* :** *Average prior acquisitions have a positive significant effect on firm performance.*

In assessing the success or failure of the acquisition process with a specified time frame using the calculation of returns from stock prices or what is referred to as Cumulative Abnormal Return (CAR) (Field & Mkrtchyan, 2017). This calculation is used cumulatively in assessing market responses to the acquisition actions taken.

Post-acquisition performance with a positive CAR encourages the management to analyze and arrange the acquisition prospects going forward. Positive CAR results will be used as a benchmark for further acquisitions (Edi & Saputra, 2019). Management will assess that the procedures for analysis that have been carried out are appropriate in integrating the performance of the acquirer's company with the target company.
The frequence of acquisitons does not bring positive returns will worsen the company's performance. The acquisition cost will drain the existing funds on acquirer (Tarigan et al., 2016). This will be a new financial problem to the acquirer company. The number of success acquisitions that able to get a positive returns will be considered to affect company in a good performance
Preparation of the hypothesis as follows:

***$H_3$* :** *Prior acquisitions success with positive CAR performance have a positive significant effect on firm performance.*

The number of prior company acquisitions has resulted in a good capital adequacy ratio for the stock movement and sent a good signal to investors (Renneboog & Vansteenkiste, 2019). The percentage with positive CAR is used as a tool to support management to successfully determine acquisition priorities that can bring positive synergies to the company. The percentage of prior acquisitions assesses the number of acquisitions that have successfully in bringing a positive CAR into the total acquisition strategy that has been carried out within a year.

In carrying out this action, strong capital and resources are needed in order to obtain the ex pected performance (Field & Mkrtchyan, 2017). So before management takes this action requires support from company stakeholders. Because the result of success or failure acquisitions will still have an impact to company's financial and operation conditions. According to the above explanation, the preparation for the fourth hypothesis is as follows:

***$H_4$* :** *Percentage of prior acquisitions success with positive CAR performance have a positive significant effect to Firm Performance*

Acquiring companies with different industrial sectors will make companies face very different situations in terms of skills, equipment and industrial environment. Unlike companies that are acquiring in the same industry, it brings hope that the company can better absorb the acquired company. Research conducted by J. Haleblian *et al*., (2006) supports acquisitions in the same industry that have a significant impact on company performance. Because this type of acquisition can make individuals trust and focus on the same market share.

In research of Basuil (2015) was proven the significant effect of same industry to the company performance. Two companies in the same industry can work together, adopt in same circumstance and grow more effectively. Peng & Fang (2010) also agree with acquisition in same industry can bring a new energy to the entity. Acquisition in same industry can increase business economic scale by operational cycle. The hypothesis based on the above situation is as follows:

***H*$_5$*: Acqusitions in same industry have a positive significant effect on firm performance.***

Firm Reputation was in grouping of company assets. It was considered as a productive intangible asset (Boyd et al., 2010). Research conducted by Agnihotri (2014) on firm attributes of firm performance growth strategy found that reputation has a significant positive impact on corporate performance, so management implemented a strategy to build a competitive reputation and create a competitive advantage, thereby attracting investor's attention to understand the company's quality and performance. A company with a good reputation is a company with a lower cost of equity.

Reputation also be the way for finance manager in getting internal and external funds. Cooperation between company with other stakeholders especially business partner are based on reputation as a symbol of trust (Agnihotri, 2014). The research of Fernández-Gámez *et al*., (2016) has earned a reputation as one of the company's intangible assets and an excellent resource for the company. This asset can be used to compete with competitors and attract the attention of investors.

Adjusting to nowdays condition as digital era, Chalençon et al., (2017) examined the effect of reputation and e-reputation on the value of corporate mergers and acquisitions. There are have a significant effect along with the techonology development, those breaking news, important events or incidents for reputable companies will take center stage. Social media can be used as a platform or forum to discuss the events or news that are happening. Based on the above explanation, the final hypothesis of this research is:

***H*$_6$*: Firm reputation have a significant effect on firm performance.***

## METHOD

In order to obtain objective research results, this research design uses descriptive, relevance and quantitative research methods (Anshori & Iswati, 2009). The characteristics of the research question are classified as comparative causal research. This research is an afterthought. All data collected are from events or events that have been observed or are in progress, so no other factors can influence (Duli, 2019). The research object selection method uses a purposive sampling method, in which, according to the research objective, each sample is selected while considering and determining the standard. The research method will represent a set of data from the studied population.



The data used in this study are secondary data obtained from www.idx.co.id. The research questions on matched sample drawn from total of the companies that have been listed on Indonesian stock exchange from 2014 and that have done merger and acquisition at least once in the period between 2014 and 2019. The reason for the selection time frame of this study was the peak value of Indonesia Composite Index (ICI) has reached the highest point since the 2008 crisis. The opportunities of taking merger and acquisition are increase due to the lower prices for companies that could be acquired after the downturn of ICI since 2014 till 2019.

The research data uses the information in the financial statements, which is displayed in the form of an annual report and has been audited by an independent auditor. By using multiple linear regression analysis to test the effects of two or more of these variables. Use SPSS (Statistical Software Package for Social Sciences) version 22.0 to perform the data analysis.

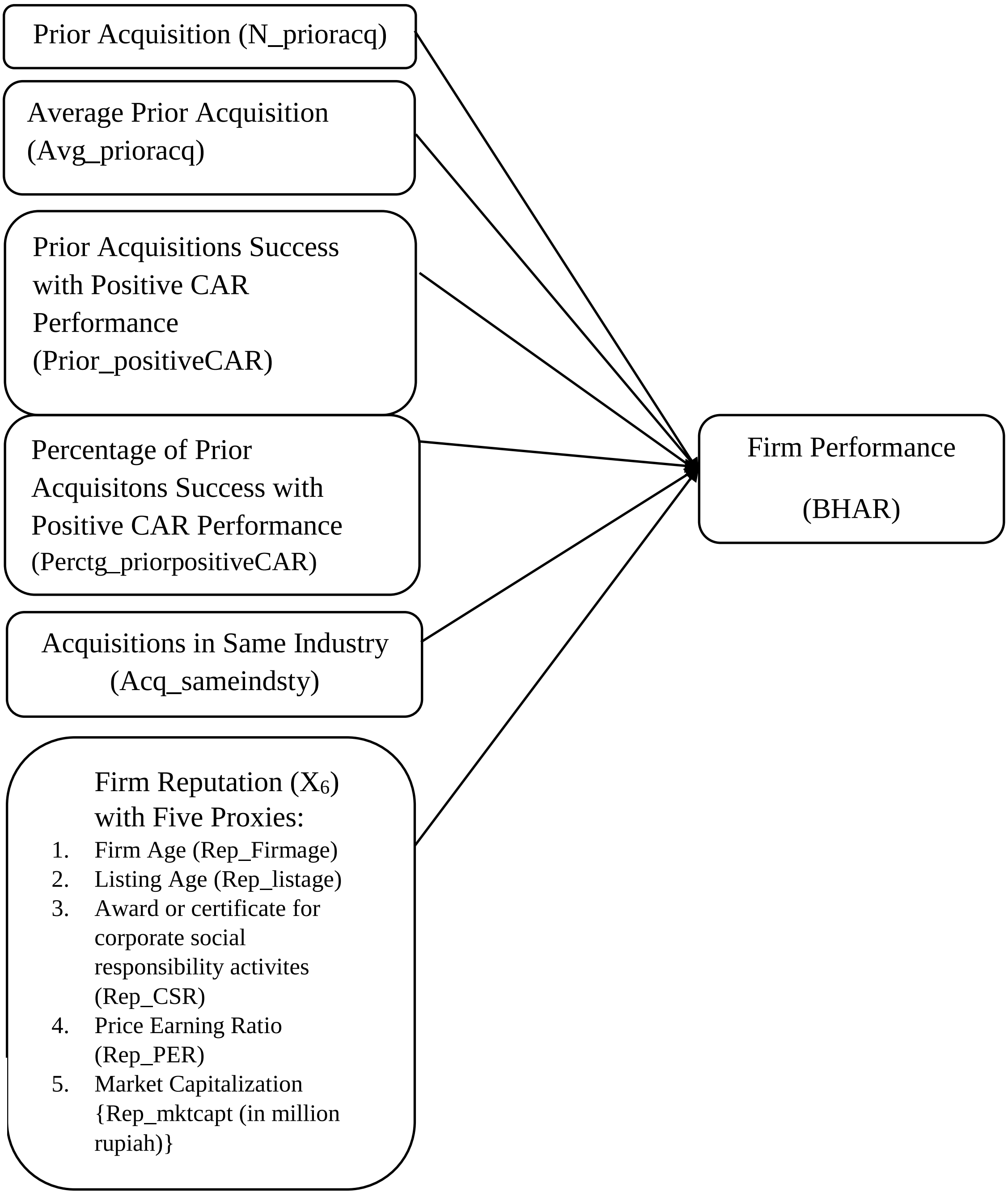


**Figure 1.** Research Framework

### Operational Definition and Variable Measurement

In this study, the measurement of company performance is used to respond to the effect of announcing an M&A transaction on the acquirer's stock price and target (Schiereck *et al.*, 2009). This research adopts event study method. The stock price data will be obtained from the Indonesian Stock Exchange based on the stock code sold by the relevant business entity. In this study, the company's long-term performance is measured by calculating buy and hold abnormal return, that is the stock returns of stocks and securities performed during the time range of $t_{-1}$ and $t_{+1}$ on the date of merger transaction and company acquisition. The time from the event date is 1 year.

This study uses six independent variables, namely prior acquisition, average prior acquisition, prior acquisitions success with positive CAR performance, percentage of prior acquisitions success with positive CAR performance, acquisitions in same industry, and firm reputation. The prior acquisition related to acquisition experience measured by number of completed acquisitions in $t_{-1}$ period. In this transaction, the company directors is in charge to make a decision. The average number of acquisition experience is the calculation of the number of company acquisitions in prior ($t_{-1}$) period divide by the number of acquisitions in the time period (t). This variable explains how many companies have made acquisitions.

A successful acquisition or acquisition process by another company will bring a rate of return. The return can be positive or negative. Companies that have good performance will receive positive abnormal returns. Positive returns can be measured by calculating abnormal returns and exceeding the expected number. The Prior acquisitions with positive CAR performance measured by total of prior acquisitions with a positive CAR ($t_{-1}$). In the case that CAR reaches a positive value, the percentage of prior purchases will review the success achieved during the positive response period when the directors selected purchase targets and integrated them to obtain market share. Measure calculated in the number of acquisitions with a positive CAR value divided by the number of positive acquisitions during period t multiplied by 100. By acquiring entities with same business field goals, the number of acquisitions of entities in same industries evaluated the total expansion of same industries.

Reputation is an intangible asset of a company. A company's reputation can be defined as the source of a company's competitive advantage. The four standards of company resources are very precious, rare, inimitable, and irreplaceable (Agnihotri, 2014). Each country has its own ranking and measurement standards (Kaur & Singh, 2018). In this study measured with five proxies, firm age by eliminate the current year with the year firm was established, listingage by eliminate the current year with the year of company listed on the exchange, award or certificate for corporate social responsibility activities by using dummy (0 for not receiving awards and 1 for receiving awards), price earning ratio measured by net profit divided by number of shares outstanding and market capitalization measured by multiply the market value with the number of shares outstanding.

## RESULTS AND DISCUSSION



Descriptive Statistics will statistically explain the variable of this study in the number in mean, maximum, and minimum value. The sample of this study are the companies that have reports from ICC are listed on IDX, as many as 121 companies are used as samples for this study. The outlier test was carried out in advance, there are 11 outlier data, 110 data are obtained after subtracting the outlier data (see table 4.1 & 4.2).

**Table 1** *The quantitative result of descriptive statistics*

**Table 1.** The quantitative result of descriptive statistics

| | Min | Maks | Mean | SD |
|---|---|---|---|---|
| *BHAR* | -0,90 | 2,50 | 0,19 | 0,72 |
| *N_prioracq* | 0,00 | 3,00 | 0,20 | 0,48 |
| *Avg_prioracq* | 0,00 | 2,00 | 0,12 | 0,36 |
| *Prior_positiveCAR* | 0,00 | 2,00 | 0,10 | 0,34 |
| *Perctg_priorpositiveCAR* | 0,00 | 100,00 | 9,54 | 29,13 |
| *Acq_sameindsty* | 0,00 | 10,00 | 1,83 | 1,62 |
| *Rep_mktcapt* (in million rupiah) | 0,00 | 4.982.600.214.02 | 131.620.621.274,80 | 776.095.905.092,80 |
| *Rep_firmage* | 3,00 | 67,00 | 27,23 | 15,67 |
| Rep_listage | 1,00 | 29,00 | 11,14 | 8,22 |
| Rep_PER | -124,07 | 3.082,57 | 293,37 | 432,76 |

Table 1 shows the result of dependent variabel, firm performance with the mean of BHAR in implementing merger and acquisitions strategies is 0.19. The market response to this coroporate action is very well, so the positive return can be obtained. The minimum value shows negative 0.90 on PT Eagle High Plantations Tbk in 2014 while the maximinum value shows 2.50 in PT Erajaya Swasembada Tbk in 2018 and PT. First Media Tbk in 2014. The standard deviation of the firm performance is 0.72 indicating a high data distribution.

Prior acquisitions in data between 2014 – 2019 show that maximum happens 3 events of merger and acquisition in a company and minimum with zero event of merger and acquisition. In this study happens on subsidiary of mining company, PT Adaro Energy, Tbk and another company is company in telecomunication, PT Erajaya Swasembada. Average prior acquisition that compairing with the number acqusition in prior acquisition ( $t_{-1}$ ) with the number acquisition in the period (t) show the result with maximum value is 2 on PT Waskita Karya (Persero) Tbk and the minimum value is 0. The standar deiviation is 0.36 shows that the low variance on average prior acquisition.

The result of successful prior acquisition with positif CAR performance are maximum value is 2 times while the minimum is 0, some company has failed process. Company resource must be support with the management experience to bring up the company performance. Mean value of this variable is 0.10. The high probability of failure acquisition happens on a newbie company. According to research by Basuil (2015), a success acquisition happen by how acquirer's management absorb the information of the company that being acquire and manage in strategies to increasing the company value. The percentage of successful prior acquisitions with positive CAR shows the mean value on 9.54 %, maximum value is 100 %, minimum value is 0% and the standard deviation is 29.13%.

Data in 2014 to 2019 show that acquisition in same industry show that maximumly a company can acquisition 10 company with the same industry. In this study's sample data show that the mining company, PT Adaro Energy,Tbk have do the acquisition target company in the same industry. The mean value of this variable is 1.83. This vertically acquisition action is expected to be able to linked the company's resource and experience in creating new value (Agnihotri, 2014; Calipha et al., 2010).

**Table 2.** The qualitative result of frequency statistic

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| No awards | 39 | 35,50 | 35,50 | 35,50 |
| Received Awards | 71 | 64,50 | 64,50 | 100.00 |
| Total | 110 | 100,00 | 100,00 | |

Firm reputation measured with five proxies figure in two table. Table 1 shows the description in quantitative data which measured in firm age, list age, price earning ratio and market capitalization. The market capitalization shows the maximum value is IDR 4,982,600,214.0 million rupiah and the minimum value is IDR 157,300 million rupiah. Mean value in this variable is 131,620,621,274.8 million rupiah. The result sort by firm age that do merger and acquisition shows the oldest company is 67 years old (establish since 1953) with the Stock code GJTL, PT Gajah Tunggal Tbk. While the newbie company that try on merger and acquisition strategy is PT PP Properti Tbk in their 3 years after establish. Mean value data of firm age is 27 years. Based on listing age, the oldest company has been listed and do merger acquisition in this sample is PT Bank Danamon Indonesia Tbk. They have listed since 29 years ago while the newest company did this corporate action when they just listed 1 year is PT PP Properti Tbk.

Firm reputation measured with PER shows the result in table 1 with the maximum value is 3,082.57 and the minimum value is 124.07. This proxy usually be the benchmark for investor in decision making. Investors expect their investment will coming back with profitable return, safe and low risk. A high PER value will show a good and healthy indicator of the company's financial management (Kaur & Singh, 2018). Table 2 in this study show the result of firm reputation with qualitative data, number of CSR awards are 64,50 % companies listed on indonesian stock exchange have been participated in CSR and got the awards or certificate. The rest 35,5% companies haven't be participated in CSR. The participated companies are try to maintain their reputation with CSR activites. Once CSR activities has been taking, they will have long term benefit from it.

**Table 3.** t-Test Result and Summary of Hypothesis

| *Model* | *Unstandardized Coefficients* ß | *Sig.* | Result |
|---|---|---|---|
| (Constant) | -0,214 | 0,086 | |
| *N_prioracq* | -0,340 | 0,022 | *Significant (-)* |
| *Avg_prioracq* | -0,167 | 0,398 | *Insignificant (-)* |
| *Prior_positive CAR* | 0,133 | 0,792 | *Insignificant(+)* |
| *Perctg_priorpositive CAR* | -0,001 | 0,861 | *Insignificant(-)* |
| *Acq_sameindsty* | 0,247 | 0,000 | *Significant (+)* |
| *Rep_mktcapt* (in million rupiah) | 0,000 | 0,000 | *Significant (+)* |
| *Rep_firmage* | -0,001 | 0,747 | *Insignificant (-)* |
| *Rep_listage* | -0,008 | 0,209 | *Insignificant(-)* |
| Rep_PER | 0,000 | 0,231 | *Insignificant(+)* |
| Rep_CSR | 0,107 | 0,312 | *Insignificant(+)* |

Table 2 in this study show the result of firm reputation with qualitative data, number of CSR awards are 64,50 % companies listed on indonesian stock exchange have been participated in CSR and got the awards or certificate. The rest 35,5% companies haven't be participated in CSR. The participated companies are try to maintain their reputation with CSR activites. Once CSR activities has been taking, they will have long term benefit from it. Sig value. Table 3 explains the effect of the significance or not the dependent variable on the independent variable. The value of ß will show the results of its effect in the study.

**Prior Acquisition to Firm Performance.**

$H_1$ hypothesizes a significant effect between prior acquisition and firm performance is not proven, because based on the results in table 3, the acquisition experience has a significant negative effect on company performance as evidenced by sig 0.022 and ß value which shows -0.340. The results of this study are not in line with research conducted by (Cho & Arthurs, 2018; Edi & Saputra, 2019; Field & Mkrtchyan, 2017; Kiessling et al., 2008). However, based on the results of research conducted by (Kwon et al., 2014) and (Hutzschenreuter et al., 2014) which considers that there can be a lack of influence of acquisition experience on company performance because of the excessive level of confidence in management towards the success of previous acquisitions. Many external data or events that can be used as additional information are ignored. The parable that can be explained by ignoring and not being open to external information is that if an acquisition action is followed by another company, the company will be faced with conditions that are different from the previous acquisition experience so that if the analysis for subsequent acquisitions remains based on historical data or previous experience will not be sufficient (Hutzschenreuter et al., 2014). Expectations on subsequent acquisitions will not match the expectations of the management.

**Average Prior Acquisition to Firm Performance.**

The same result also happened to the explanation of the hypothesis $H_2$ regarding the positive significant effect between the average prior acquisition and firm performance was also not proven, because based on the results of table 3, the average prior acquisition did not have a significant negative effect on company performance as evidenced by sig. 0.398 and the ß value which shows -0.167. This research also contradicts research conducted by (Edi & Saputra, 2019; Field & Mkrtchyan, 2017; Walters et al., 2007). This could be explained by hubris theory, which is the more acquisition it get. The more overconfidence of a firm will be. Those overconfidence will cause misanalysis in doing more acquisition in the future.

**Prior Acquisition Success with Positive CAR Performance to Firm Performance.**

$H_3$ are not as expected. The success of prior acquisitions with positive CAR does not have a significant effect on firm performance as evidenced by sig. 0.792 and the ß value which shows 0.133, The results of this study are not in accordance with research from (Edi & Saputra, 2019; Field & Mkrtchyan, 2017). Another perspective from (Fang et al., 2015; Hutzschenreuter et al., 2014; Kwon et al., 2014) argues that positive or negative CAR on previous acquisitions cannot determine future acquisition prospects with the same results. Post-acquisition performance also cannot be assessed in a short period of time in one year. Resources owned by the two companies required an efficient and effective process in integrating (Fang et al., 2015). This could be explained by hubris theory, which is the more acquisition it get. The more overconfidence of a firm will be. Those overconfidence will cause misanalysis in doing more acquisition in the future.

**Percentage of Previous Acquisition with positive CAR Performance to Firm Performance.**

$H_4$ are also not as expected. The percentage of previous successful acquisitions with positive CAR also does not have a significant effect on company performance as evidenced by sig. 0.861 and the ß value which indicates -0.001. The results of this study are not in accordance with research from (Edi & Saputra, 2019; Field & Mkrtchyan, 2017). Another perspective from (Fang et al., 2015; Hutzschenreuter et al., 2014; Kwon et al., 2014) argues that positive or negative CAR on previous acquisitions cannot determine future acquisition prospects with the same results. Post-acquisition performance in a period of one and three years there will be significant differences If there is acquisition vulnerability in one period and it does not get significant results in company performance, then management needs to review the steps and strategies taken (Renneboog & Vansteenkiste, 2019). This could happen due to the misanalysis of management in doing acquisition or due to different industry acquisition will need the management to redoing all the work or knowledge.

**Acquisition in Same Industry to Firm Performance**

The research results are proven by the $H_5$ assumption about the effect of acquisitions in the same industry on firm performance. The output of table 3 shows the sig value equal to 0.000 and the value of ß which shows 0.247. This is in line with research conducted by (Basuil, 2015; Edi et al., 2019; Li et al., 2016; Nold, 2012; Peng & Fang, 2010) research explained that there is a concept of knowledge transfer theory that can help company management in increasing company value and performance in competing with other competitors (Basuil, 2015). In addition, based on the organizational theory, management making acquisitions in the same industry will be more focused and can create savings in terms of operational costs (Calipha et al., 2010). If a small-scale business undertakes an acquisition strategy, it will be better with the vertical acquisition concept that will increase the economies of scale of the business from the resulting operational and financial synergies (Peng & Fang, 2010).

**Firm Reputation to Firm Performance**

The last hypothesis or $H_6$ in this study is a firm reputation variable that uses five measurements to prove a significant effect on company performance. The results of the t test on these five measurements of company reputation, there is only one measurement that is proven, namely market capitalization has a significant effect on the firm performance as evidenced by sig. 0.000 and the ß value which indicates 0.000. Another measurement is not proven, firm age is not significant effect on firm performance as evidenced by sig. 0.747 and the ß value which shows -0.001. Listed age on the IDX is not significant effect on firm performance as evidenced by sig. 0.209 and the ß value which indicates -0.008. Price earning ratio is not significant effect on firm performance as evidenced by sig. 0.231 and the ß value which indicates 0.000. CSR awards is not significant effect on firm performance as evidenced by sig. 0.312 and the ß value which indicates 0.107.



Firm reputation is shown to have an effect on the company's performance through market capitalization by shares owned by the entity. An entity that has a large market capitalization can be due to the value of the products marketed to the public that it gets a good response so that the public's assessment of the product or company name is good (Agnihotri, 2014; Weng & Chen, 2017). In creating products that have high creative value in customers, it is also necessary to think about competitors or market competition in terms of customers, marketing venues or suppliers that can become obstacles ((Fernández-Gámez et al., 2016;

Kocak et al., 2017). In addition, in the era of advanced technology, companies must be able to prevent and survive obstacles or attacks with bad issues through the internet (Chalençon et al., 2017). Companies need to make company acquisitions vertically or horizontally with the aim of minimizing market competition and creating minimizing costs that need to be spent in creating products to achieve a competitive advantage (Basuil, 2015). On the other hand, it is also necessary to strengthen the fortress that adapts to current technology so as to channel accurate information to stakeholders.

The result of this research showed by Table 3 are clarified that acquisition in same industry ($H_5$) and Firm reputation ($H_6$) with market capitalization measurement have a significant effect to firm performance. With the concept of knowledge transfer theory and organizational theory. Acquisitions in same industry will increasing company value and performance in competing with other competitors (Basuil, 2015) with more focused and create saving in terms of operational cost (Calipha et al., 2010). Cost saving will be increasing company value in creating high value products to customers. These will have an effect on company performance by get a good response in public and achieve a competitive advantage. In path of creating a good reputation, company should take concern on every market response and do the quick solution for each problem that can impact the reputation. This study finds that reputation has an important impact on performance according to the resource based theory. The better the firm reputation as firm intangible asset. The more maximized of firm performance it can be achieved. So highly recommendation to company to adding a new department that fully concern the company's reputation and keep it on the good situation.

In contrast, number of prior acquisitions ($H_1$), average prior acquisitions ($H_2$), prior acquisitions success with positive CAR ($H_3$), and percentage of prior acquisition success with positive CAR ($H_4$) are proven have insignificantly affected on firm performance. There can be a lack of influence of acquisition experience on company performance because of the over confidence in management towards the success of prior acquisitions with according to hubris theory which is the more confidence the CEO, the higher possibility that the CEO will do mistake in doing merger and acquisition. Many external information that can be used as additional information are ignored. Those management's actions by ignoring and not being open to external information or event that related to an acquisition actions is followed by another company, will be a prediction for company with a different condition than the prior acquisition experience. So the analysis for the subsequent acquisitions remains based on historical data or prior experience will not be sufficient and not match with management's expectations (Hutzschenreuter et al., 2014). Historical data cannot determine future acquisition prospect with same result. Post acquisitions performance also cannot be assessed in short period. Acquisitions are a process to integrating two companies' resource to an efficient and effective company performance. Managements needs to review the strategies taken (Renneboog & Vansteenkiste, 2019). Shareholders need to take concern on the selecting management especially CEO. Company needs to add some significant characteristic in selection for future acquisition purpose.

This result in this research through the multiple regression linear method will be describe in following equations

**Firm Performance = -0,214 – 0,340N_prioracq – 0,167Avg_prioracq + 0,133Prior_positiveCAR – 0,001Perctg_priorpositiveCAR +**

**0,247Acq_sameindsty + 0,000Rep_mktcapt – 0,001Rep_firmage – 0,008Rep_listage + 0,000Rep_PER + 0,107Rep_csraward + e**

### The Result of Correlation Test

One of the independent variables firm reputation in this study was measured using five benchmarks, including market capitalization, company age, age of listing on the Indonesian stock exchange, price-earnings ratio and CSR rewards. Correlation test analysis is used to explain the relationship in measuring a company's reputation the test results can be seen in the following table 4:

| | Market Capitalization | Firm Estabilishment Age | Firm listed on IDX Age | Firm listed on IDX Age | CSR Awards |
|---|---|---|---|---|---|
| Market Capitalization | 1,000 | - | - | - | - |
| Firm Estabilishment Age | 0,185* | 1,000 | - | - | - |
| Firm listed on IDX Age | 0,325** | 0,476** | 1,000 | - | - |
| *Price Earning Ratio* | 0,378** | 0,336** | 0,292** | 1,000 | - |
| CSR Awards | 0,03x4 | 0,260* | 0,331** | 0,243* | 1,000 |

**Table 4.** The result of spearman rank test

The results of the correlation test conducted on the five measurement results of the company's reputation revealed a low positive correlation (see table 4). The correlation coefficient value is less than 0,05. A very low relationship can be explained from the correlation between CSR rewards and other metrics. This proves that the corporate social responsibility activities of Indonesian companies aren't a very relevant proxy to be used as firm reputation measurement. This could mean that indonesian investor and company are still not thinking CSR performance as a representative as firm reputation for the firm. Which is mean when company want to focus to increase firm reputation, company should focus in developing firm listing age and firm market capitalization.

## CONCLUSION

The results of this study presented in the discussion of acquisitions towards management behavior and the company performance. The company's reputation has a significant effect on the performance of companies that make acquisitions and are listed on the Indonesia Stock Exchange. One of the measurements measured in accordance with previous research by Kaur & Singh, (2018) is market capitalization. This is because in terms of the value of products or services that are marketed to the public and get a good response. The correlation test of the firm reputation measurements shows an irrelevant measurement for number of CSR award or certificate of company that listed on Indonesian Stock exchange due to a lacking attention of entities to carry out social responsibility and firmness of regulations from government.



The number of acquisition experiences has a significant negative effect and the average number of acquisitions in the previous period has no significant effect on company performance because more experience will increase trust in management that is excessive and ignores other factors that can affect the subsequent acquisition process. The success of previous acquisitions with a positive CAR and the percentage of successful previous acquisitions with a positive CAR has no significant effect on company performance. This is because previous acquisitions, either getting a positive or negative CAR, cannot determine the outcome of the next acquisition. Vulnerable time needed in integrating performance between the two companies is quite long.

The main implication in this research is that company need to do careful planning in maximizing company value through mergers and acquisitions. Increase the company performance needed a quite long time and skilled management on integrating two companies' resource. Company could maximize their firm reputation by maxing market capitalization to maximize the firm performance after merger and acquisition. When selecting a new CEO to be in charge for merger and acquisition, management should add previous acquisition experience in the same industry as one of the requirement in selecting new CEO to maximized the firm performance after merger and acquisition. So that some recruiting CEO or the Top Management such as their experience and expertise that related to corporate strategy become a necessity. Management's dexterity in response to external events beyond expectations is needed.

The limitations of this research are the object of research obtained from the ICC notice site about the notification of the company conducting the merger acquisition there are many transactions that are not attached to the opinion report, the large number of cross-border acquisition transactions in Indonesia thus reducing the sample data that can be used and this research sector covers all sectors so that it cannot properly explain the state of acquisition per sector.

Recommendations that can be given for further research are an extending the research sample by taking samples of cross border acquisitions that occurred in Indonesia from countries that have merger and acquisition transactions with companies in Indonesia, adding other variables such as the type of transactions which is the acquisition type like cash transaction or non-cash transaction carried out between companies and others from other reference sources so that they can explore other independent influence factors on company performance and classifying research by sector such as the condition of acquisition transactions that are mostly carried out in Indonesia in the mining sector.

**REFERENCES**

Agnihotri, A. (2014). Corporate Reputation Based Theory of Choice Between Organic, Hybrid and Inorganic Growth Strategies. *Corporate Communications*. https://doi.org/10.1108/CCIJ-11-2012-0080

Anshori, M., & Iswati, S. (2009). *Metodologi Penelitian Kuantitatif* (1st ed.). Surabaya: Airlangga University Press.

Barney, J. B. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, *17*(1), 99–120. https://doi.org/10.1177/014920639101700108

Basuil, D. A. (2015). Effect of Industry- and Region Specific Acquisition Experience on Value Creation in Cross Border Acquisitions : The Moderating Role of Cultural Similiarity. *Journal of Management Study*, 1–46.

Boyd, B. k., Bergh, D. d., & Ketchen jr, D. j. (2010). Reconsidering The Reputation-Performance Relationship: A Resource-Based View. *Journal of Management*, *36*(3), 588–609. https://doi.org/10.1177/0149206308328507

Calipha, R., Tarba, S., & Brock, D. (2010). Mergers and Acquisitions: A Review of Phases, Motives, and Success Factors. In *Advances in Mergers and Acquisitions* (Vol. 9).

https://doi.org/10.1108/S1479-361X(2010)0000009004

Chalençon, L., Colovic, A., Lamotte, O., & Mayrhofer, U. (2017). Reputation, E-Reputation, and Value-Creation of Mergers and Acquisitions. *International Studies of Management and Organization*, *47*(1), 4–22. https://doi.org/10.1080/00208825.2017.1241086

Chen, L. Y., Lai, J. H., & Chen, C. R. (2015). Multiple Directorships and The Performance of Mergers & Acquisitions. *North American Journal of Economics and Finance*, *33*(321), 178–198. https://doi.org/10.1016/j.najef.2015.04.004

Cho, S. Y., & Arthurs, J. D. (2018). The Influence of Alliance Experience on Acquisition Premiums and Post-Acquisition Performance. *Journal of Business Research*, *88*(May 2017), 1–10. https://doi.org/10.1016/j.jbusres.2018.02.022

Duli, N. (2019). *Metodologi Penelitian Kuantitatif : Beberapa Konsep Dasar untuk Penulisan Skripsi & Analisis Data dengan SPSS* (pertama). Yogyakarta: Deepublish (Grup Penerbitan CV Budi Utama).

Edi, Basri, Y. Z., & Arafah, W. (2019). The Effect of Acquisition Synergy on Firm Perfomance Moderated by Firm Reputation. *Journal of Accounting, Finance and Auditing Studies*. https://doi.org/10.32602/jafas.2020.002

Edi, Basri, Y. Z., & Arafah, W. (2020). CEO characteristics, firm reputation and firm performance after merger and acquisition. *Business: Theory and Practice*, *21*(2), 850–858. https://doi.org/10.3846/btp.2020.12782

Edi, & Saputra, E. (2019). The Effect of Director Experience on Acquisition Performance. *Journal, of Accounting, Finance and Auditing Studies*, 136–150. https://doi.org/10.32602/jafas.2019.42

Erden, Z., Klang, D., Sydler, R., & Von Krogh, G. (2015). "How Can We Signal the Value of Our Knowledge?" Knowledge-Based Reputation and Its Impact on Firm Performance in Science-Based Industries. *Long Range Planning*, *48*(4), 252–264. https://doi.org/10.1016/j.lrp.2014.07.003

Esterlina, P., & Firdausi, N. N. (2017). Analisis Kinerja Keuangan Perusahaan Sebelum dan Sesudah Merger dan Akuisisi. *Jurnal Administrasi Bisnis S1 Universitas Brawijaya*.

Fang, Y., Jin, D., Sun, X., & Wang, H. (2015). New Evidence on Alliance Experience and Acquisition Performance: Short-Run Pain, Long-Run Gain? *Studies in Economics and Finance*, *32*(1), 53–73. https://doi.org/10.1108/SEF-07-2014-0130

Fernández-Gámez, M. A., Gil-Corral, A. M., & Galán-Valdivieso, F. (2016). Corporate Reputation and Market Value: Evidence with Generalized Regression Neural Networks. *Expert Systems with Applications*, *46*, 69–76. https://doi.org/10.1016/j.eswa.2015.10.028

Field, L. C., & Mkrtchyan, A. (2017). The Effect of Director Experience on Acquisition Performance. *Journal of Financial Economics*, *123*(3), 488–511. https://doi.org/10.1016/j.jfineco.2016.12.001



Griffin, R. (2004). *Manajemen* (Ketujuh; W. C. Kristiaji, Ed.). Jakarta: Erlangga.

Haleblian, J. J., Pfarrer, M. D., & Kiley, J. T. (2017). High-Reputation Firms and Their Differential Acquisition Behaviors. *Strategic Management Journal*, *38*(11), 2237–2254. https://doi.org/10.1002/smj.2645

Haleblian, J., Kim, J. Y., & Rajagopalan, N. (2006). The Influence of Acquisition Experience and Performance on Acquisition Behavior: Evidence from the U.S. Commercial Banking Industry. *Academy of Management Journal*, *49*(2), 357–370. https://doi.org/10.5465/AMJ.2006.20786083

Hitt, M. A., Ireland, R. D., & Hoskisson, R. E. (2011). *Strategic Management Competitiveness & Globalization* (9th ed.). South-Western, Cengage Learning.

Hutzschenreuter, T., Kleindienst, I., & Schmitt, M. (2014). How Mindfulness and Acquisition Experience Affect Acquisition Performance. *Management Decision*, *52*(6), 1116–1147. https://doi.org/10.1108/MD-07-2013-0376

Isbanah, Y. (2015). Pengaruh Esop, Leverage, dan Ukuran Perusahaan terhadap Kinerja Keuangan Perusahaan di Bursa Efek Indonesia. *Jurnal Riset Ekonomi Dan Manajemen*. https://doi.org/10.17970/jrem.15.150103.id

Kaur, A., & Singh, B. (2018). Measuring the Immeasurable Corporate Reputation. *Metamorphosis*, *17*(1), 53–64. https://doi.org/10.1177/0972622518778210

Kiessling, T., Harvey, M., & Heames, J. T. (2008). Operational Changes to the Acquired Subsequent Organizational Performance. *Journal of Leadership & Organizational Studies*, *14*(4), 287–302. https://doi.org/10.1177/1548051808316050

Kocak, A., Carsrud, A., & Oflazoglu, S. (2017). Market, Entrepreneurial, and Technology Orientations: Impact on Innovation and Firm Performance. *Management Decision*, *55*(2), 248–270. https://doi.org/10.1108/MD-04-2015-0146

KPPU. (2018). *Laporan Tahunan KPPU 2018*. Jakarta.

Kwon, O., Lee, N., & Shin, B. (2014). Data Quality Management, Data Usage Experience and Acquisition Intention of Big Data Analytics. *International Journal of Information Management*, *34*(3), 387–394. https://doi.org/10.1016/j.ijinfomgt.2014.02.002

Lange, D., Lee, P. M., & Dai, Y. (2011). Organizational reputation: A review. *Journal of Management*, *37*(1), 153–184. https://doi.org/10.1177/0149206310390963

Levitt, B., & March, james g. (1988). Organizational Learning. *Academy of Management Review*. https://doi.org/10.5465/amr.1985.4279103

Li, J., Li, P., & Wang, B. (2016). Do Cross-Border Acquisitions Create Value? Evidence from Overseas Acquisitions by Chinese Firms. *International Business Review*, *25*(2), 471–483. https://doi.org/10.1016/j.ibusrev.2015.08.003

Makki, S. (2018). Jumlah Laporan Merger dan Akuisisi ke KPPU pada 2018 Turun. Retrieved April 6, 2020, from CNN Indonesia website: https://www.cnnindonesia.com/ekonomi/20181228125546-92-356997/jumlah-laporan-merger-dan-akuisisi-ke-kppu-pada-2018-turun

Nold, H. A. (2012). Linking Knowledge Processes with Firm Performance: Organizational Culture. *Journal of Intellectual Capital*, *13*(1), 16–38. https://doi.org/10.1108/14691931211196196

Peng, Y. S., & Fang, C. P. (2010). Acquisition Experience, Board Characteristics, and Acquisition Behavior. *Journal of Business Research*, *63*(5), 502–509. https://doi.org/10.1016/j.jbusres.2009.04.009

Petkova, A. P., Wadhwa, A., Yao, X., & Jain, S. (2014). Reputation and Decision Making under Ambiguity: A Study of U.S. Venture Capital Firms' Investments in the

Emerging Clean Energy Sector. *Academy of Management Journal*, *57*(2), 422–448. https://doi.org/10.5465/amj.2011.0651

Pfarrer, M. D., Pollock, T. G., & Rindova, V. P. (2010). A Tale of Two Assets: The Effects of Firm Reputation and Celebrity on Earnings Surprises and Investors' Reactions. *Academy of Management Journal*, *53*(5), 1131–1152. https://doi.org/10.5465/AMJ.2010.54533222

Prasetyono, A. P. (2017). Persaingan di Era Globalisasi dan Ekonomi Digital – Kemenristek / BRIN. Retrieved April 5, 2020, from Kementrian riset dan teknologi/ Badan Riset dan Inovasi Nasional website: https://www.ristekbrin.go.id/kolom-opini/persaingan-di-era-globalisasi-dan-ekonomi-digital/

Renneboog, L., & Vansteenkiste, C. (2019). Failure and Success in Mergers and Acquisitions. *Journal of Corporate Finance*, *58*(May 2018), 650–699. https://doi.org/10.1016/j.jcorpfin.2019.07.010

Schiereck, D., Sigl-Grüb, C., & Unverhau, J. (2009). Investment Bank Reputation and Shareholder Wealth Effects in Mergers and Acquisitions. *Research in International Business and Finance*, *23*(3), 257–273. https://doi.org/10.1016/j.ribaf.2008.09.004

Smith, M., & White, M. C. (1987). Strategy, CEO Specialization, and Succession. *Administrative Science Quarterly*, *32*(2), 263. https://doi.org/10.2307/2393129

Tarigan, J., Yenewan, S., & Natalia, G. (2016). *Merger dan Akuisisi: Dari Perspektif Strategis dan Kondisi Indonesia (Pendekatan Konsep dan Studi Kasus) Bonus: 23 Kasus Utama M&A di Indonesia dan Global* (pertama). Yogyakarta: ekuilibria.

Walters, B. A., Kroll, M. J., & Wright, P. (2007). CEO Tenure, Boards of Directors, and Acquisition Performance. *Journal of Business Research*, *60*(4), 331–338. https://doi.org/10.1016/j.jbusres.2006.12.001

Weng, P. S., & Chen, W. Y. (2017). Doing Good or Choosing Well? Corporate Reputation, CEO Reputation, and Corporate Financial Performance. *North American Journal of Economics and Finance*, *39*, 223–240. https://doi.org/10.1016/j.najef.2016.10.008