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The Impact of Divestment and Acquisition on Company Performance

Depince Pigai[1]*, Hasim As'ari[2]
Accounting Study Program, Faculty of Economics, Mercu Buana University, Yogyakarta
Corresponding Author: Dapince Pigai :depincepigai481@gmail.com

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ABSTRACT

Most companies in Indonesia restructured their portfolios in 1997 during the economic crisis, but the results were mixed after restructuring their portfolios. After the economic crisis, portfolio restructuring in the form of divestments and acquisitions in Indonesia continues with mixed results, as well as the results of divestment research and acquisitions are still diverse and not conclusive. In developing countries, especially in Indonesia, there have not been many research results on divestment and acquisition with moderated company size. The study examined the effect of divestment, acquisition and company size as moderation variables on a company's performance. A total of 54 issuers are listed in the IDX 2011 - 2019 which conducts divestments and acquisitions. The study used multiple regression analysis and moderation regression analysis (MRA) which explains the relationship 2 independent variables. the impact of the divestment of the firm performance but not proven to be able to moderate the impact of acquisitions on firm performance Expected results of this research are beneficial to the development of the theory of portfolio restructuring, beneficial for executives, managers, business analysts.

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INTRODUCTION

Portfolio restructuring refers to the reorganization of ownership structures, operational arrangements, and other organizational structures with the objective of improving profitability and enhancing company performance (Norley et al., 2012). Portfolio restructuring involves significant changes in strategies and policies related to the composition of assets, liabilities, capital, and company operations (Weston et al., 2004). It may alter assets, ownership structures, and corporate combinations through alliances aimed at increasing firm value and maximizing shareholder wealth (Sulaiman, 2012). Companies that undergo restructuring through divestiture tend to become leaner, more efficient, better organized, and more focused on their core businesses (Lebans & Euske, 2006).

Based on the above definitions, one of the strategies to improve and maximize corporate performance is portfolio restructuring. When people hear the term portfolio restructuring, they often associate it with companies experiencing decline. In reality, restructuring does not need to wait until company performance deteriorates; it can be undertaken at any time to ensure competitiveness and sustainable growth.

Companies experiencing declining performance or financial distress need to undertake restructuring to recover from crises, often through various divestiture strategies, which constitute one form of portfolio restructuring.
Even companies in healthy conditions need restructuring, improvement, and expansion through acquisitions, mergers, and diversification to maintain competitive advantages or at least survive in increasingly intense competition. Companies that cease innovating in a highly globalized competitive environment risk being overtaken by competitors.

In Indonesia, portfolio restructuring strategies have been implemented by various companies with mixed outcomes. Some have succeeded, while others have not. For example, PT Saranacentral Bajatama Tbk (BAJA) restructured debts amounting to US$20.6 million owed to its affiliated lender, PT Sarana Steel. The restructuring involved extending the debt repayment period, changing the maturity date from October 3, 2016, to October 3, 2021. This restructuring was expected to positively affect the company's financial condition and business continuity (Silitonga, 2016). Similarly, PT Nusantara Infrastructure Tbk recorded a 22.6% increase in total assets within six months, equivalent to Rp455.8 billion compared to its total assets as of December 31, 2012. This achievement was attributed to increased cash and cash equivalents resulting from corporate restructuring involving its subsidiary, PT Margautama Nusantara Tbk (MUN), valued at Rp595 billion (Sari, 2013). These cases illustrate successful restructuring programs implemented by Indonesian companies.

On the other hand, some restructuring efforts have failed. PT Astra International Tbk (ASII) experienced a 22% decline in net income to Rp3.1 trillion by the end of March 2016. The decline was driven by reduced revenues. According to Astra President Director Prijono Sugiarto, the company experienced decreased income from heavy equipment, mining, and agribusiness sectors. At the same time, net income contributions from Toyota Sales Operations declined following the implementation of a two-tier distribution restructuring model (Kusuma, 2016). Likewise, PT Holcim Indonesia Tbk completed its restructuring and integration with PT Lafarge Cement Indonesia in 2015, resulting in a 2.6% decline in revenue to Rp9.2 trillion from Rp9.484 trillion in 2014. The company reported profits of Rp175 billion, down from Rp660 billion in 2014 (Alexander, 2016).

In recent years, corporate restructuring activities have increased significantly, becoming an important phenomenon for academics and policymakers interested in examining the impact of restructuring on corporate performance. Previous studies investigating portfolio restructuring and firm performance have produced inconsistent findings.

Forms of portfolio restructuring examined in prior studies include divestitures, mergers, acquisitions, new product development, diversification, split-offs, and takeovers. Research by Sun (2012) found that divestitures positively affect cash flow, operating performance, profitability, and stock returns. Eichner (2010) also demonstrated that divestitures positively influence cash flow and are frequently used by firms to overcome financial difficulties. In contrast, Hite and Owers (1983) and Sanders (2001) found negative stock market reactions to divestiture (spin-off) announcements.

Numerous empirical studies have investigated the effects of mergers and acquisitions on corporate financial performance. Ismail et al. (2010) reported significant increases in profitability following mergers and acquisitions. Lau et al. (2008) found evidence that mergers improve post-merger operating performance. Similarly, Eichner (2010), Buschmann (2006), Sudarsanam and Lai (2001), and Hoberg and Phillips (2010) identified positive relationships between mergers and improved cash flows. However, other studies such as Pazarskis et al. (2006), Altiok-Yilmaz (2011), Oduro and Agyei (2013), and Rashid and Naeem (2016) concluded that mergers have no significant effects on profitability, liquidity, or leverage ratios.

Research by Oghuvwu and Omoye (2016), Eichner (2010), Buschmann (2006), and Sudarsanam and Lai (2001) found that acquisitions positively affect cash flow, corporate image, profitability, and growth. Conversely, Yeh and Hoshino (2002) reported that acquisitions have a negative impact on corporate operating performance.

The findings from previous studies remain diverse and inconclusive, indicating unresolved issues regarding the relationship between corporate restructuring and firm performance. These inconsistent findings (research gap) may stem from several factors. First, studies relying on primary data often report negative or insignificant results because researchers face limitations such as inability to control respondents' attitudes during data collection, incomplete disclosure of sensitive information, unanswered questionnaires, limited sample sizes, respondents' busy schedules, and lack of honesty or cooperation among respondents. Such issues may introduce biases affecting the validity and reliability of research findings.

This study is motivated by two main issues. First, there is a phenomenon gap among companies listed on the Indonesia Stock Exchange that have undertaken portfolio restructuring with varying outcomes. Second, there is a research gap in previous studies examining the effects of portfolio restructuring on firm performance, as existing findings remain inconsistent and inconclusive.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Portfolio Restructuring

Portfolio restructuring generally involves reducing or expanding business lines and business units. Unlike financial restructuring, which focuses on ownership structures, portfolio restructuring concentrates on business lines, business units, and revenue streams, aiming to streamline organizational units for improved output and overall organizational performance. According to Bowman et al. (1999), portfolio restructuring is intended to improve organizational focus by divesting underperforming or non-core business units and concentrating resources on healthier business segments.

Portfolio restructuring also refers to changes in ownership forms through the sale of unwanted assets and replacement with more desirable assets (Maria et al., 2015). It includes significant changes in the asset mix owned by a company or the business lines in which it operates, including liquidation, divestiture, asset sales, and spin-offs (Maria et al., 2015).

The primary objective of portfolio restructuring is to enable companies to focus on their core competencies and enhance shareholder value (Prahalad & Hamel, 2003). These activities are closely related to strategic management because they align business activities with organizational vision and mission. Through SWOT analysis and strategic planning, companies seek to utilize internal and external opportunities to achieve competitive advantage.

Firm Performance

Performance is a critical aspect that every company must achieve because it reflects the organization's ability to manage and allocate its resources effectively. Firm performance refers to outcomes achieved by a company within a specific period based on predetermined standards. The implementation of corporate policies can positively influence company performance. For example, Return on Assets (ROA) is often used by investors and potential investors as a basis for investment decisions because it reflects the effectiveness of management policies and overall corporate performance.

Firm performance serves as a basis for evaluating corporate objectives, particularly increasing firm value and maximizing shareholder wealth. Performance can be measured through both financial and non-financial indicators. According to Lebas (1995), performance measurement represents the translation of complex performance realities into organized symbols that can be communicated and interpreted consistently. Measuring organizational effectiveness and efficiency over time is essential to achieving optimal results. Demirbag et al. (2006) emphasized the importance of performance measurement for effective corporate management. Koufopoulos et al. (2008) argued that performance measurement is more important than simple quantification and accounting. This view is consistent with Bititci et al. (1997), who described performance management as the process through which organizations manage performance in alignment with strategic and functional objectives.

HYPOTHESIS DEVELOPMENT

Based on previous studies and the literature review related to forms of portfolio restructuring, this study formulates hypotheses that can be empirically tested as follows:

The Effect of Divestiture on Firm Performance

Divestiture refers to the reduction or disposal of certain assets or business units and may also be described as the sale of businesses owned by a company. However, divestiture should not be viewed solely as an indication of financial distress or bankruptcy. Companies may undertake divestitures not only to address operational problems but also to improve profitability and enhance shareholder value.

Various motives drive companies or investors to engage in divestitures, including reducing asset burdens and increasing income. Asset burdens may include ownership-related costs such as taxes, maintenance expenses, and other associated expenditures. In addition to profitability enhancement and cost reduction, several other motives may encourage firms to pursue divestiture strategies (Asmana, 2019).

Previous studies have demonstrated that divestitures positively affect cash flow and firm performance. Eichner (2010), Denis and Kruse (2000), Asquith et al. (1994), and Robbins and Pearce (1992) found positive effects of divestiture on corporate performance. John et al. (1992) argued that asset divestitures are often employed to overcome financial difficulties. Denis and Rodgers (2007) found that firms reducing assets (through divestiture) and liabilities can improve future conditions and achieve positive profitability after bankruptcy.

However, the market response to divestiture restructuring is not always positive. Sanders (2001) reported mixed outcomes, while Hite and Owers (1983) found negative stock returns among firms conducting spin-offs. Similarly, Hotchkiss (1993) documented negative abnormal returns when bankrupt firms sold core business units. These findings contradict studies reporting positive impacts of divestitures on firm performance.

Therefore, the first hypothesis is formulated as follows:

H2: Divestiture has an effect on firm performance.

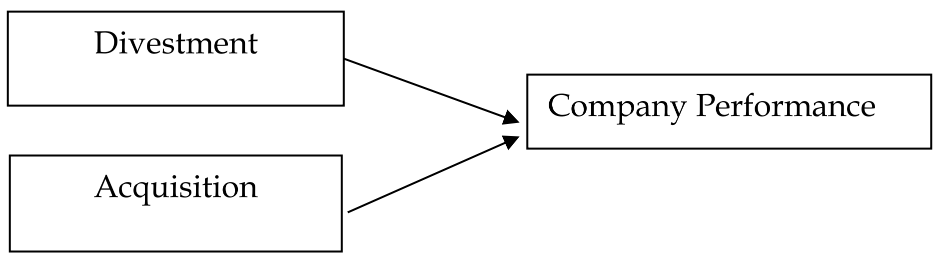

Figure 2.1: Research Framework

RESEARCH METHODS

The type of data used in this study is quantitative data, which is data expressed with numbers that show the magnitude of the value of the variable being studied. Meanwhile, the source of data in this study is secondary data, namely data obtained from other parties who have collected it first. Secondary data is used in this study because secondary data is cheaper, easier to obtain and reliable in validity because the financial statements have been audited by a public accountant. The use of data sources in this study consisted of; (1) Annual report for all companies selected as samples, for the years 2010 to 2020 (2) JSX Monthly Statistics, for January 2010 to December 2020 (3) Indonesian Capital Marker Directory (ICMD), published from 2010 to 2020.

RESULTS OF ANALYSIS AND DISCUSSION

Description of research data

The sample that is the focus of this study is companies in Indonesia that restructured their companies from 2010 to 2020 listed on the Indonesia Stock Exchange (IDX).

The sample determination technique in this study uses *nonprobability sampling* with the type of sampling technique, namely *purposive sampling*, the selection of this type of sampling is because the population in this study is already known, namely the issuer company that is restructuring the portfolio.

In this study, the companies that are sampled are issuer companies that restructure their portfolios with certain criteria based on the purpose of the research or the problem of this research and the researcher has determined the criteria in Chapter III. Sample research based on the criteria in Chapter III can be presented in Table 4.1 as follows:

Table 4.1 Types of Portfolio Restructuring

Yes	Portfolio Restructuring	Quantity
3	Divestment	14
4	Acquisition	40
Total		54

Testing Results and Discussion

Table 4.2 Descriptive Statistical Test

Table 2: Descriptive Statistical Test Results					
	N	Minimum	Maximum	Red	Std. Deviation
Divestment	54	.00	13833.00	1973.7037	4102.67578
Acquisition	54	-25491.00	34913.00	4789.1481	9416.73587
Tobins_Q	54	1131.00	21086.00	10501.4630	4458.34576
Valid N (listwise)	54				

Descriptive statistics are methods related to the collection and presentation of a set of data that includes mean, minimum, maximum, and standard deviation values, so as to provide useful information. Descriptive statistics are useful to see the state of the initial data that has been obtained.

Based on table 4.2, it can be seen that the divestment variable has a minimum value of 0.00 and a maximum value of 138333.00 with an average value of 1973.7037 and a data distribution rate of 4102.675778 from 54 samples studied. The acquisition variable had a minimum value of -25491.00 and a maximum value of 34913.00 with an average value of 4789.1481 and a data distribution rate of 9416.73587 from 54 samples studied. The group company variable has a minimum value of 152.00 and a maximum value of 398.00 with an average value of 290.9815 and a data distribution rate of 66.57341 from 54 samples studied. The tobin's Q variable had the lowest minimum value of 1131.00 and the maximum value of 21086.00 with an average value of 10501.4630 and a data distribution rate of 4458.34576 from 54 samples studied.

Classic Assumption Test

Before multiple linear regression testing is carried out on the research hypothesis, it is necessary to first carry out a test to find out whether there is a violation of classical assumptions. A good hypothesis test result is a test that does not violate the classical assumptions underlying the multiple linear regression model. Regression equations are used to test classical assumptions. The classical assumption test in this study produced a normality test, a heteroscedasticity test, a multicollinearity test, and an autocorrelation test.

Normality Test

The normality test aims to test whether in a regression, variable dependent, independent variable or both have a normal distribution or not have a normal distribution. A good regression model is to have a normal or near-normal distribution of data. The normality test used in this study is *a one-sample Kolmogorov-Smirnov*.

The Kolmogorov smirnov

The Kolmogorov smirnov test is used to test whether the data is normally distributed or not normally distributed. The kolmogorov Smirnov test is based on the following conditions: if the significance value of the kolmogorov smirnov is greater than the predetermined significance value, then the data is distributed normally.

Table 4.3: Normality Test Results

One-Sample Kolmogorov-Smirnov Test	
	Unstandardized Residual
N	54
Asymp. Sig. (2-tailed)	.152c

Models		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.726E-13	2565.242		.000	1.000
	Divestment	.000	.141	.000	.000	1.000
	Acquisition	.000	.061	.000	.000	1.000

Table 4.4: Heteroscedasticity Test Results

The test results in table 4.3 can be found that the significance value of Asymp. Sig. (2-tailed) of 0.152 is greater than 0.05, because the calculation results show that the value of sig. > 0.05, it can be concluded that the data is distributed normally. Thus, the assumption or normality requirement in the regression model has been met.

Heteroscedasticity Test

The test results in table 4.4 above can be seen that the significance value of the three independent variables is more than 0.05. Thus, it can be concluded that there is no heteroscedasticity problem in the regression model, which means that the regression model is homogeneous or in other words there is no problem of heteroscedasticity assumption.

Autocorrelation Test

Table 4.5: Autocorrelation Test Results

Model Summaryb					
Models	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.423a	.179	.129	4159.91706	2.281

From the results of the autocorrelation test in Table 4.5 with durbin-watson showing the value (du < dW < 4-dU) = (1.6800 < 2.281 < 2.32) it can be concluded that there are no symptoms or problems of autocorrelation in the regression model.

Multicollinearity Test

Table 4.6: Multicollinearity Test Results

Coefficient								
Models		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIVID
1	(Constant)	12330.830	2565.242		4.807	.000		

	Divestment	-.368	.141	-.339	-2.609	.012	.974	1.027
	Acquisition	-.125	.061	-.264	-2.048	.046	.991	1.009

By looking at the table: 4.6 multicollinearity test results, it can be seen that none of the independent variables have a VIF value > 10 each or a VIF value less than 10; and Tolerance of more than 0.100 so that it can be concluded that there is no problem of multicollinearity between independent variables. Thus it can be concluded that this regression model does not have a problem of multicollinearity.

Based on the results of the classical assumption test above, it can be concluded that the results of the data normality test, autocorrelation heteroscedasticity, and multicollinearity show that all research variables have met classical assumptions.

Hypothesis Testing

Table 4.7: Results of the t test

Variable	t	Sig.	Tingkat Sig.	Conclusion
Divestment	-2.696	.009	0,05	Significant
Acquisition	-2.089	.042	0,05	Significant
Adjusted R Square	.146			
R Square	.178			

Source: Data processed with spss 26 software

Hypothesis Testing 1: The Effect of Divestment on Company Performance

Table 4.7 presents the relationship between divestment and company performance. From the table, it can be seen that the divestment is significant in the company's performance. This can be seen from the significance value of the divestment variable being below the alpha level of 0.05. The results of this study show that divestment affects the performance of supporting data companies. This shows that the first hypothesis is proven that divestment has an effect on the company's performance.

Hypothesis Testing 2: The Effect of Acquisitions on Company Performance

Table 4.7 presents the relationship between acquisitions and company performance. Table 4.7 shows evidence that acquisitions are significant in the company's performance. This can be seen from the significance value of the acquisition variable being below the alpha level of 0.05. The results of this study show that acquisition affects the performance of supporting data companies. This shows that the second hypothesis is proven that acquisitions have an effect on the company's performance.

DISCUSSION OF RESEARCH RESULTS

The Effect of Divestment on Company Performance

The results of this study show that divestment affects the performance of supporting data companies. This shows that the first hypothesis is proven that divestment has an effect on the company's performance. This is because divestments are carried out to generate the cash needed to pay debts or keep the business running, to focus on the core business or to divest profitable business lines. That the strategy focuses on core competencies is actually the main key to the company's long-term excellence. Divestitures become part of a savings strategy by selling or closing some or all of an unprofitable business or that does not fit in with the company's other activities.

Divestitures have become a strategy for companies to focus on their core business (David & David, 2017). Divestitures give companies plenty of opportunities to invest in projects that can improve performance. Divestitures provide an increase in EPS. EPS is one of the factors that investors look at in the capital market to make choices in investing their investments, one of the ways that investors can take in investing their funds is by buying stocks. For companies, maintaining and increasing EPS is a must for stocks to continue to exist and remain in demand by investors.

The results of this study support his research; Haynes et al, (2002) who showed that divestment has a positive and significant impact on increasing the profitability of companies. Divestment in the form of the sale of company assets and *spin-offs* has a positive impact on the company's value (Markides, 1995). Likewise, the results of other studies show that divestment has a positive effect on the company's stock return, operating performance, company profitability and *cumulative abnormal return* (Sun., 2012., Dittmar & Shivdasani., 2003., Datta et al., 2003 and Mulherin & Boone, 2000).

However, the reaction to the divestment announcement is not always positive, this can be seen that *the spin-off* announcement has a negative impact on stock returns (Hite and Owers, 1983). Brahmana's research, (2021) shows evidence that divestment actions reduce company performance.

The Effect of Acquisitions on Company Performance

The results of this study show that acquisition affects the performance of supporting data companies. This shows that the second hypothesis is proven that acquisitions have an effect on the company's performance. This shows evidence that the company that made the acquisition was able to improve the company's performance from year to year. The results of this study also indicate that the economic objectives of the acquisition act were achieved. So it can be concluded that the motive for the acquisition is the economic motive and the synergy motive that is achieved. Synergy is the total value of the combined company. In simple terms, acquisitions are carried out to have a good impact on the company's performance (Syukur & Fitri, 2016)

Company performance has become the main focus of various stakeholders, thus there is a need for studies to provide solutions to improve company performance (Ismail et al., 2011). Improving the company's performance includes making acquisitions (Lakstutiene, et al., 2015). Acquisition is one of the strategies to improve the company's performance (Syukur & Fitri, 2016). Acquisitions can also be a solution to prevent liquidity risks (Liargova & Repousis, 2011)

A number of studies have been conducted on acquisitions and their impact on company performance (Lakstutiene et al, 2015; Tao et al, 2017). The results of the study found that acquisitions have a positive impact on cash flow, improve the company's image, increase the company's profit and growth. Meanwhile, the results of Yeh and Hoshino's (2002) research found that acquisitions have a negative impact on the company's operational performance. (Syukur & Fitri, 2016), concluding that there was no significant difference in financial performance between before and after the acquisition

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