ABSTRACT

The Effect of Managerial Stock Ownership and Fundamental Factor of the Acquiring Firms on the Method of Payment in Acquisition and on the Choosing of the Type of Acquisition, and the Long-term Stock Performance of the Public Acquiring Firms in Jakarta Stock Exchange After the Acquisition.

This study explores the relation between the managerial stock ownership, the fundamental factor of the acquiring firms i.e., free cash flow, financial leverage, sustainable growth, relative firm size and market to book value, the method of payment in acquisitions i.e. with cash or stock payment, the choosing of the type of acquisition i.e. internal or external acquisition and the long-term stock performance after the acquisition for the public acquiring firms that conducted acquisitions in Indonesia, between 1995 and 2000. Forty eight acquiring firms and thirty non acquiring firms in the same industry are participated in this study.

The results indicate that: 1) Contingency table analysis performed in this study finds that there is no systematic relation between the structure of managerial stock ownership and the method of payment in acquisition, and also between the structure of managerial stock ownership and the choice of the type of the acquisition. These imply that the dominance of acquiring firm's management with its group tends to choose the method of payment and the type of acquisition depend on their group's interest, so that the agency theory which only regards for the sake of the principle and the agent should be extended to the stakeholder theory in order to protect the minority stockholders. 2) From logistic analysis shows that the probabilities to pay with cash in acquisition significantly decrease when the target firm sized increased. 3) Using independent sample t test indicates that: a) there is significantly difference between the averages of three years CAR of the acquiring firms that pay with cash and stock in acquisition, but the stock payment was the better. b) There is non-significantly difference between the average of three years CAR of the acquiring firms that choosing the internal acquisition and the external acquisition. c) There is non-significantly difference between the average of three years CAR of the acquiring firms that doing internal acquisition with cash payment and stock payment. These imply that internal acquisition not always making loss for the minority stockholders. d) There is significantly difference between the averages of three years CAR of the acquiring firms and the non-acquiring firms in the same industry, and the non-acquiring firms were the better. It implies that the majority of acquiring firms in Indonesia not adopt the efficiency and synergy theory of merger.

Keywords: acquiring firms, cash and stock payment in acquisition, internal acquisition, external acquisition, and CAR (cumulative abnormal return)