

ACQUISITION MOTIVE, STOCK MARKET PERFORMANCE, AND SLACK RESOURCES AS MODERATING VARIABLE

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Abstract: Acquisition is a restructuring activity with different risks depending on the motive used by the company. This study aims to identify the relationship between acquisition motives and stock market performance moderated by slack resources in the acquirer companies. This study observed 65 companies in Indonesia listed on the Indonesia Stock Exchange that performed acquisitions in 2010 – 2020. The data were analyzed using the multiple linear regression technique. The data were analyzed using the multiple linear regression technique. The study concluded that the exploratory motive negatively affected stock market performance. Meanwhile, the moderating variable of slack resources was reported to weaken the negative effect of exploratory motive on stock market performance. This research suggests managers should make a careful decision regarding the acquisition motives that will be used by a company. In addition, they must ensure sufficient slack resources during the acquisition as the process may impact the stock market performance. Thus, investors must carefully observe the acquisition motives and possible risks that might harm their investment.

Keywords: exploration acquisition, exploitation acquisition, stock market performance, slack resources, signaling theory

Abstrak: Akuisisi merupakan aktivitas restrukturisasi yang memiliki risiko berbeda - beda tergantung motif yang digunakan oleh perusahaan. Penelitian ini bertujuan untuk menguji hubungan antara motif akuisisi dan kinerja pasar saham dengan slack resources sebagai variabel moderasi pada perusahaan akuisisi. Penelitian ini melibatkan 65 perusahaan yang melakukan Akuisisi di Indonesia pada tahun 2010 – 2020 yang terdaftar di Bursa efek Indonesia. Teknik analisis data yang digunakan dalam penelitian ini adalah regresi linier berganda. Berdasarkan hasil penelitian dapat disimpulkan bahwa motif eksplorasi berpengaruh negatif terhadap kinerja pasar saham. Sedangkan, variabel moderasi slack resources memperlemah pengaruh negatif motif eksplorasi terhadap kinerja pasar saham. Kontribusi dari penelitian ini adalah seorang manajer harus berhati – hati dalam pengambilan keputusan motif akuisisi yang akan digunakan dan memastikan memiliki slack resources yang cukup saat akuisisi karena dapat berdampak pada kinerja pasar saham. Selain itu, sebagai investor juga memperhatikan dengan cermat motif akuisisi dan risiko yang dihasilkan karena dapat berdampak pada kerugian saat berinvestasi.

Kata kunci: akuisisi eksplorasi, akuisisi eksploitasi, kinerja pasar saham, slack resources, teori sinyal

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INTRODUCTION

The number of acquisitions in Indonesia significantly increases every year (Maryanti et al. 2017). Statista Research Department (2023) indicates 79 acquisitions in 2021 with a total value of 31.03 billion dollars. This is slightly higher than the previous years, with 66 acquisitions and a total value of 9.71 billion dollars in 2020 and 57 acquisitions with a total value of 7.2 billion dollars in 2019. Most of these acquisitions were found in the consumer goods, financial services, and technology sectors. For example, PT. Global Digital Niaga (GDN), a company that oversaw Blibli, acquired shares of PT. Supra Boga Lestari's (RANC) managed the RANC Market with a value of Rp 2.03 trillion. The aim of the acquisition was to expand the company's ecosystem to reach e-commerce in Indonesia.

The acquisition is a strategy to expand (acquisition company) by purchasing part or all of the target company's shares to make the company a subsidiary (Hitt et al. 2011). Acquiring companies with 50% of shares or more will receive financial reports explaining the company's financial position from the parent companies and their subsidiaries (Junni et al. 2019). According to David (2017), the purpose of the acquisition are the intention to grow synergy and spirit to compete in both companies, the company's efforts to make a diversification, and the improvement of the company's economics of scale.

Although this action is common among public companies, previous studies have inconsistent conclusions on its performance. Some scholars (Farinós et al. 2019; Krishnan & Yakimenko, 2021) believe that acquisition has a positive effect on stock market performance. On the other hand, others argue that the acquiring company's shares experienced a significant loss of 10% after the acquisition (Agrawal et al. 1992). A study by (Yang et al. 2019) and (Zijun Geng, 2020) also found a negative effect on abnormal returns of the acquiring company after announcing the acquisition.

This inconsistency might be because researchers have investigated acquisition performance from different perspectives. Some investigated acquisition from the perspective of the target company, such as post-acquisition evaluation (Suk & Wang, 2021), compatibility (Murthy et al. 2020), capital structure (Flannery et al. 2022), and the ownership structure

of the target company (Masulis & Simsir, 2018). Meanwhile, other researchers focus on the acquiring companies.

Of the two perspectives above, this study emphasizes the acquiring companies. It investigates whether the announcement of acquisition motives made by the acquiring companies has an impact on stock market performance. Moreover, acquisition motives are relevant to acquisition risk and performance. Signaling Theory states that every signal sent by the company leads to a market reaction (Yasar et al. 2020). One of the signals for investors is information about the acquisition. The market response regarding the company's acquisition motives will affect the stock market performance of the acquiring company as investors consider the risk factors (Angwin et al. 2022). The greater the risk of an acquisition, the more the market will pay attention to the details. Plenty of research (Aalbers et al. 2021; Bauer et al. 2018; Zhang et al. 2020) mentions two acquisition motives: exploration and exploitation. Both motives can affect stock market performance.

The exploitation motive is defined as a short-term strategy involving refinement, choice, production, efficiency, selection, implementation, and execution (Lee & Lieberman, 2023). In the acquisition context, Angwin (2017) explains that exploitation motive is related to efforts to improve the company's financial position and decrease tax exposures. The exploitation motive promotes the development of economic scale and coverage, cost reduction, and vertical integration that enhances the supply chain. In addition, the exploitation motive aims to improve core business, enlarge the company's size and scale, and seize the current market. It is about similarity, so they take less time to create, are easy to predict, and are lower risk.

Exploration motives, meanwhile, aim at product variation, experimentation, flexibility, discovery, generating new knowledge, exploring new products, markets, and geographic areas, and creating new capabilities (Luger et al. 2018). However, exploration acquisition performance has a high element of uncertainty. Creating new products or technologies takes a long time and is more difficult to realize. Thus, it has a high risk as the acquiring company cannot predict the long synergy of new exploration operations (Keyhani et al. 2022).

According to Agusti-Perez et al. (2020), slack resources can be defined as potential resources that can be utilized to achieve company goals. The availability of slack resources in the organization can minimize the lack of funds when making acquisitions resulting in maintaining activities such as production, investment, and protecting the organization's technical core (Jin et al. 2022). Therefore, slack resources will moderate the effect of exploration acquisition motives on stock market performance.

While previous research focuses only on acquisition motives, the current research examines exploitation – explorative motives and slack resources of acquiring companies. In addition, the research unveils exploitation – explorative motives that have not been conducted in Indonesia. For that reason, this research aims to identify the effects and risks of acquisition motives on market share performance with slack resources as the moderating variable in Indonesian acquiring companies. The result of this research is significant to managers in decision-making and scientific development.

METHODS

This study used secondary data, i.e., financial reports taken from the official website of the Indonesia Stock Exchange (IDX) in 2010 – 2010. It obtained 65 samples from public sector companies using a purposive sampling technique. The main criteria of the sample were public companies listed on the IDX. Further, they conducted acquisitions between 2010–2021 and released financial statements at least two years before the acquisition. The final criterion was that the company's stock price must be publicly available.

The dependent variable of this study was the stock market performance measured using the cumulative abnormal return (CAR) of the acquiring company for three days before and after the announcement of the acquisition. Kim and Finkelstein (2009) claim that CAR is the best solution for measuring acquisition performance, unlike financial reports that have a time gap between acquisition events and financial report reporting. For this reason, the present study used CAR to measure acquisition performance. The CAR was based on literature (Ahmed et al. 2023) with the following formula:

$$CAR_i = \sum_{-3}^{+3} A, R_{i,t}$$

In this study, the acquisition motive was an independent variable measured using a dummy variable. The value of 1 was for the exploration motive, while the value of 0 was used for the acquisition of the exploitation motive.

High discretion-slack resources served as a moderating variable to reduce the negative impact of the acquisition motives on stock market performance. High discretion slack resources refer to resources that can be easily converted into cash with the following formula:

$$slack_{i,t} = \text{Cash and cash equivalent}_{i,t} / \text{total liabilities}_{i,t}$$

In this study, the control variables included company size measured using the natural logarithm of the total assets of the acquiring company. Besides, the firm's prior performance was measured using the acquirer's ROA in the year prior to the acquisition and the company's growth as seen from the comparison of sales in the year *i* with the previous year (Su, 2020). Thus, the framework of this research can be seen in Figure 1.

The relationship between the dependent and the independent variable was analyzed using multiple linear regression with the following formula:

$$CAR_{i,t} = \alpha + \beta_1 EA_i + \beta_2 Size_{i,t-1} + \beta_3 ROA_{i,t-1} + \beta_4 Growth_{i,t-1} + \varepsilon_{i,t}$$

with moderating variable:

$$CAR_{i,t} = \alpha + \beta_1 EA_i + \beta_2 Slack_{i,t-1} + \beta_3 EA_i * Slack_{i,t-1} + \beta_4 Size_{i,t-1} + \beta_5 ROA_{i,t-1} + \beta_4 Growth_{i,t-1} + \varepsilon_{i,t}$$

Notes (using moderating variables): α (Constant); β_1-5 (Regression coefficient); $CAR_{i,t}$ (Cumulative Abnormal Return of company *i* on day *t*); EA_i (Acquisition motive is measured using the dummy method. A value of 1 is intended for acquiring companies that make explorative acquisitions and 0 for acquiring companies that make exploitation acquisitions); $Slack_{i,t-1}$ (Slack resources of acquiring companies *i* in 1 year before the acquisition); $Size_{i,t-1}$ (Size of acquiring company *i* in 1 year before acquisition); $ROA_{i,t-1}$ (Return on Assets of the acquiring company *i* in 1 year before the acquisition).

Previous scholars (Aalbers et al. 2021; Zhang et al. 2020) found that exploration acquisitions negatively affected stock market performance. It can be calculated through the movement of stock prices in the capital

market. Exploratory acquisitions have a high risk as it requires a long process to make something new. Furthermore, the success of the acquisition is difficult to predict. Aalbers et al. (2021) state that 60% of cost-cutting is due to exploration motives, with receiving only 7% of income. As a result, acquiring companies tend to pay more for exploratory acquisitions that, unfortunately, cause losses.

Based on the Signaling Theory, risks and uncertainty inherent in the explorative acquisition will affect investors' judgment. The higher the risk of an acquisition, the more the market will pay attention to the details (Aalbers et al. 2021). Investors will be more worried about the possibility of failure that the acquiring company will suffer after an explorative acquisition. This is because the integration process will be more complex and require a longer period. Therefore, explorative acquisitions have a negative effect on the stock market performance of the acquiring company., so such acquisition motives might negatively affect stock market performance.

Hypothesis 1. The exploration motive negatively affects the stock market performance of the acquiring company

Zhang et al. (2020) argue that there is a way to weaken the negative effect of exploration acquisitions on stock market performance by using a moderating variable of slack resources. They tested the moderation of slack resources in high-discretion and low-discretion slack resources. Interestingly, acquiring companies with high slack resources have more potential to seize the growth strategies (Nohria & Gulati, 1996; Voss et al. 2008). Slack resources function as a bumper for a company when they are involved in high-risk corporate activities, such as acquisition (Iyer & Miller, 2008). The integration process after the acquisition,

like knowledge transfer and intercompany learning process, will be adjusted and carried out more easily if the companies have high slack resources. As mentioned by previous scholars (Geiger & Makri, 2006; Lin et al. 2011), slack resources can support companies when they suffer a loss due to the risks of failure during acquisition. Thus, it is believed that they can increase the stock market performance of the acquiring companies (Zhang et al. 2020). By so doing, the negative impacts of the explorative acquisition on the stock market performance can be weakened as the companies possess abundant slack resources.

H2. Slack resources lower the negative effect of exploration acquisition motives on stock market performance in acquiring companies

RESULTS

The results and discussion sections cover statistical descriptive information, including the number of samples used in this study, minimum and maximum values, mean, and standard deviation. This study also used autocorrelation tests, multicollinearity tests, and multiple regression tests to determine the relationship between the dependent and independent variables. Table 1 shows that the CAR variable had a minimum value of 0.1851 and a maximum value of 0.2802. The mean value of the CAR variable was -0.0014, while the standard deviation was 0.0608.

The descriptive result of the explorative acquisition (EA) motive had a mean score of 0.4 with a standard deviation of 0.494. Meanwhile, slack resources' results indicated that the minimum value was 0.0014 and the maximum value was 4.1891. The mean score was 0.4659, with the standard deviation of 0.7764.

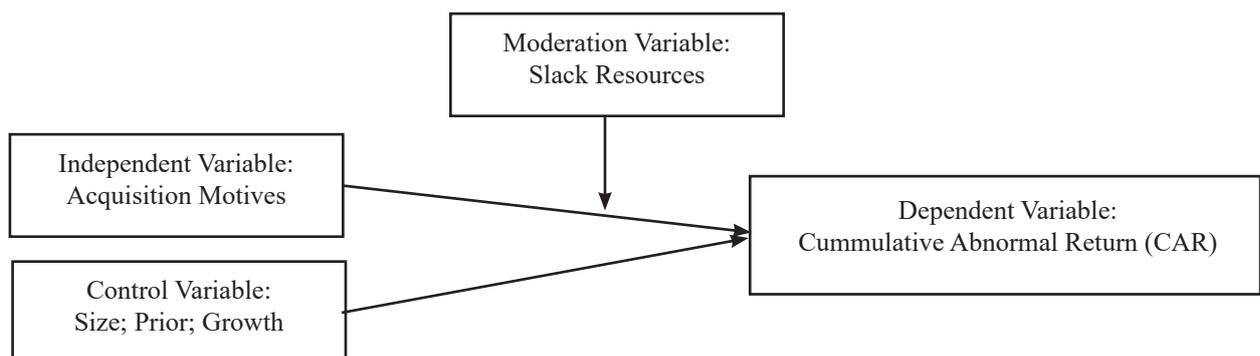


Figure 1. Framework research model

This research reported the descriptive result of the company size. The minimum value was 20.9175, while the maximum value was 27.891. The mean score of the company size was 23.376, with a standard deviation of 1.5694. The Table 1 showed that ROA had a minimum value of -0.61, while the maximum value was 25.41. The mean of ROA was 6.1779, with a standard deviation of 5.4726. The table above indicates that the minimum growth value is -1.162, and the maximum is 3.9913. Meanwhile, the mean score is 0.2893, with the standard deviation of 0.5748.

In this study, the results of multiple linear regression covered two models. The first model examined the effect of the acquisition motive on the acquiring company's stock performance of the acquiring company. The second model aimed to examine variable slack resources on the effect of acquisition motives on the stock performance of the acquiring company.

Table 2 shows the results of the multicollinearity test. The table indicates that in regression models 1 and 2, all variables have a tolerance value of > 0.1 and the value of variance inflation factor (VIF) < 10.00 . Thus, it can be claimed that all variables in the regression models 1 and 2 do not have a multicollinearity problem.

The result of the autocorrelation test in Table 3 shows that regression models 1 and 2 have DW values of 1.709 and 1.803. The DU value on the Durbin-Watson table with the significance of 5% involving 65 (n) samples and 1 (k) independent variable is 1.6294. In regression model 1, the DW value is 1.709 times bigger than the DU value of 1.6294 and fewer than the value of 4-1.6294 (4-DU). Meanwhile, in regression model 2, the DW value is 1.803 times bigger than the DU value of 1.6294 and fewer than the value of 4-1.6294 (4-DU). In other words, this research concludes that no autocorrelation exists in the regression models 1 and 2 in this context.

The results of the study indicate that the acquisition motive had a negative effect on the acquiring company's stock performance by -0.038 and -0.058 respectively in model 1 and model 2. These results confirm previous studies by Zhang et al. (2020) and Aalbeers et al. (2021) that investors will not put their funds in acquiring companies with exploration motives. They argue that these companies have high expenditures for creating new technology yet have low profitability. Thus, the first hypothesis was accepted in that the exploration motive harmed the stock performance of the acquiring company.

Table 1. Result of descriptive statistics

Variable	N	Min	Max	Mean	Std. Deviation
CAR	65	-0,1851	0.2802	-0.0014	0.0608
EA	65	0	1	0.4	0.494
slack	65	0,0014	4.1891	0.4659	0.7764
size	65	20.9175	27.891	23.376	1.5694
ROA	65	-0.61	25.41	6.1779	5.4726
growth	65	-1.162	3.9913	0.2893	0.5748

Table 2. Multicollinearity test result

Model	Collinearity Statistics	
	Tolerance	VIF
1. (Constant)		
E _{Ai}	0.942	1.061
Size _{i,t-1}	0.884	1.131
ROA _{i,t-1}	0.939	1.064
Growth _{i,t-1}	0.986	1.014
2. (Constant)		
E _{Ai}	0.559	1.789
Slack _{i,t-1}	0.814	1.228
Size _{i,t-1}	0.861	1.161
ROA _{i,t-1}	0.815	1.227
Growth _{i,t-1}	0.970	1.031
E _{Ai} * Slack _{i,t-1}	0.552	1.811

Table 3. Autocorrelation test result model

Model	R	R square	Square	Estimate	Durbin - Watson
1	.384a	0.148	0.091	0.05796	1.709
2	.455a	0.207	0.125	0.05687	1.803

Next, Table 4 presents the results of slack resources, which are positive at 0.007. When combined with exploration acquisitions, the slack resources variable generates a positive result of 0.055 on stock performance. It can be concluded that slack resources can reduce the negative impact of exploration acquisitions on stock market performance. This finding aligns with a study by Zhang et al. (2020). They found that high-discretion slack resources were excess liquid assets owned by companies. These assets could reduce the negative impact caused by exploration acquisitions. Consequently, the slack resources can make investors want to invest and improve stock market performance. Thus, the second hypothesis was accepted in that slack resources could lower the negative effect of the exploration motive on the stock performance of the acquiring company.

The multiple linear regression obtained 0.009 and 0.010, respectively, in model 1 and model 2. These values show that company size has a positive effect on the stock performance of the acquiring company proxied by CAR. The larger the company's size, the more investors prefer to invest in the company. These companies typically have stable resources, experience, and more mature decision-making in dealing with problems. Therefore, when large companies make exploratory acquisitions, investors are not worried about losing investment capital so they can improve stock market performance (Setiawan & Miftahurrohmah, 2021).

In this study, the firm's prior performance was proxied by the ROA of the acquiring company for one year before making the acquisition. The results of multiple linear regression firm prior performance in models 1 and 2 did not affect stock market performance as the significant value of the two models was higher than 0.05.

Based on the Table 4, models 1 and 2 on company growth for one year before the acquisition do not affect stock market performance. It is because the significance value of the two models is higher than 0.05. Even though the company has good growth, investors do not consider it in acquisition companies as it only compares one year when the company has the best-selling products. Thus, it cannot be used as a reference (Aprilianti, 2016).

Table 4. Multiple linear regression result

	Model 1	Model 2
	CAR -3; +3	CAR -3; +3
(Constant)	-0.189 (0.11)	-0.221* (0.062)
EA	-0.038**	-0.058***
Slack	-0.016	(0.004)
EA + Slack		0.007 (0.492)
		0.055* (0.086)
Size	0.009* (0.072)	0.010** (0.037)
ROA	-0.0004 (0.750)	-0.001 (0.315)
Growth	-0.016 (0.206)	-0.013 (0.298)
N	65	65
R-Squared	0.148	0.207

Note: level of significant (α) 1%, 5%, dan 10%

Managerial Implications

Acquirer companies need in-depth knowledge of exploration acquisition activities as the exploration motive negatively affects short-term company performance. The study showed that exploration acquisition motives negatively affected the stock market performance. The exploration acquisition motive has high uncertainty as developing new technology is not easy and requires a long time. Therefore, acquirer companies need slack resources, namely excess resources owned by the company as a buffer when exploration acquisitions do not run well.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Explorative acquisition results in a negative effect on the stock market performance of the acquiring company. It indicates that companies with explorative acquisitions have a high risk of uncertainty as it requires a long process and is difficult to predict success. Thus, companies spend more funds than their income. Investors are reluctant to invest in exploratory acquisition companies, that result in a decline in share prices. Slack resources moderation variable weakens the negative effect of explorative acquisition companies on stock market performance in acquirer companies. This

indicates that high-discretion slack resources reduce the risk of uncertainty from exploration acquisition companies as investors believe that acquirer companies have excess funding sources to help them when facing unexpected risks from exploration acquisitions.

Recommendations

Investors need to be more careful when they study an acquisition announcement. They must be able to understand the motives and goals of the acquiring company. However, investors can use the available slack resources at the acquiring company as one of their investment considerations because these resources will help the company deal with the unexpected risks inherent in exploration acquisitions. Future studies and academics are expected to add long-term performance measurements to companies that make exploratory acquisitions. Adapting and applying new knowledge and technology in the company's business activities may take quite a long time. Moreover, the sample of this present study is relatively small. Hence, future studies are expected to involve larger samples and extend the period of research for stronger statistical tests.

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