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The impacts of Acquisition on the Bidder's Cash Flow Structure
(The case of PT Central Sentosa Finance acquisition by PT Bank Central Asia)

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A B S T R A C T

The purpose of this study is to examine the impact of Merger and Acquisition (M&A) wave on constructing the capital structure. The government policies to assist the Small Medium Enterprises (SMEs) is in conflicts with the other regulation which requires banks to meet the minimum Net Performing Loan (NPIL). This situation encourages the emergence of M&A wave in Indonesia. Numbers of banks do M&A as the option to accommodate the government regulations. Using the case of PT Central Sentosa Finance (CSF) acquisition by PT Bank Central Asia (BCA), this study examines the M&A impacts on the bidder's capital structure when the acquisition occurs due to the wave and the conflicting of government policies. The quantitative method is used to examine the impact of M&A on the company's capital structure focusing the 2014 acquisition. The study contributes to the accounting field in the areas of transparency and capital issues. The statistical results show that the potential policies conflict drives the company to prioritize the selection of funding.

1. INTRODUCTION

Massive of Merger and Acquisition (M&A) leads to the emergence of wave has enforced the management to take part. The external pressure considers playing significant roles in management decision to take part within the wave. While M&A is seen as the low cost and most strategic decision, M&A potentially generates financial difficulties for the company. A recent study shows that less than 25 percent of the M&A are able to meet the financial goals (Lewis & McKone, 2016; Marks & Miivis, 2015). The change of government policies alters the business activities when some companies may react sensitively such as the case of Indonesia banks when the government requires them to provide financial assistance for Small Medium Enterprises (SMEs). While the government policy is seen as the most often driving factor for the emergence of M&A wave, management interest also plays significant influenced on M&A decision. Management was forced to take part the wave. The unexpected decision for M&A has significant impacts on the company's financial structure. Pecking-Order theory emphasizes that the company is likely to use internal fund rather than external fund for investment payment as to reduce the risk (Fischer, 2017). At the same time, the unexpected decision often contributes to the miss-valuation.

The conflict appears and significantly affects the bank's capital structure particularly when miss-valuation and capital liquidity become an issue for the company. Using the case of PT Bank Central Asia (BCA), this paper is aimed to examine the extent to which the M&A decision during the M&A wave affects the construction of company's capital structure. This paper aims to contribute to the accounting area focusing on the area of transparency and issues with capital of the company.

Bank Central Asia: A Brief M&A

The Indonesia 2007 financial crisis had significant impacts on the national economic. The crisis strongly hits small and medium businesses. The market slowed down and drove numbers of SMEs to find financial assistance. The main issue is the increasing of Central Bank interest rate from 8 percent in 2007 to 9,25 percent in 2008. This causes the increasing of fund cost. The increasing of bank interest rate to improve the economic growth has prevented the SMEs to access the financial assistance. Numbers of SMEs may not be able to access fresh fund and/or loan due to the cost is high. In addition to high cost of fund, lack of financial knowledge and information, and less bankable performance of their business are the main factors that hinder them to get financial assistance. To resolve these situations, the Indonesian government issued several policies to help and assist the SMEs.

The introduction new regulations emphasized the banks participation through the provision of financial assistance for the SMEs. The government underlines the requirement for the banks to spend 20 percent of their portfolio for SMEs credit (Indonesia, 2018; Indonesia State Secretariat Ministry, 2008; Samora, 2018). To support this regulation, the government provides incentive for the banks that have loan for funding ratio up to 94 percent (Pribadi, 2017). In practice, the regulation has hindered the bank to meet the other government expectations. While the government incentive is quite attractive for some Indonesia banks, the requirement for banks to maintain the minimum Non-Performing Loan (NPL) performance has prevented them from meeting this government portfolio for SMEs credit. M & A is selected by most Indonesia banks to accommodate both rules expectations. There are more than 20 banks did merger and/or acquisition following the new regulation.

Numbers of Indonesia banks such as PT Bank Mandiri, PT Bank Rakyat Indonesia and PT Bank Negara Indonesia acquire smaller firms as its subsidiaries or expand their line of business in insurance, securities, or shariah-banking. Massive M&A done by Indonesia banks leads to the emergence of M&A wave during 20013 to 2017.

Focusing exclusively on PT Bank Central Asia (BCA), BCA is one of the most reputable banks in Indonesia which well-known for the excellent banking services. The excellent services are mainly supported by the bank ability to provide lower interest rate and operate efficiently compare to other banks. The bank presents significant growth in major financial aspects. The bank revenues increase from Rp. 25, 01 Billion in 2011 to Rp. 53, 78 Billion in 2017. Meanwhile, PT Central Sentosa Finance (CSF) is a medium financing firm owned by PT Sinar Mitra Sepadan Finance (25 percent ownership), BCA Finance (25 percent ownership), and PT Multikem Supolindo (50 percent ownership). The CSF main business is motorcycle credit and financing. Later, CSF expands the business by providing the investment financing and working capital for small corporation. This new business allows the individual customers to take multipurpose credit financing and operating lease. The business demonstrates massive growth which the main reason for BCA through BCA Finance to acquire the CSF. BCA conducts the acquisition of CSF in 2014. BCA acquired the whole of Sinar Mitra Sepadan Finance ownership, and 20 percent of Multikem Supolindo ownership. The acquisition causes BCA, through BCA Finance, hold 70 percent of the CSF ownership.

For BCA, the acquisition is aimed to resolve BCA's subsidiaries financial problems as well as expanding its business. The acquisition cost is Rp. 70.11 Trillion or equal to US$ 5.393 Million. The acquisition is continued as in 2017, the bank continues this acquisition by taking over 90 thousand shares (around 30 percent of ownership) of PT Multikem Suplindo for Rp .220 Billion or equal to US$ 15.714 Million. The acquisition causes BCA hold full control of CSF. The acquisition of CSF strengthens the BCA position within the industry. The acquisition also enables BCA to meet the financial expectation as to support its subsidiaries financial as well as to increase BCA and BCA Finance's SMEs ratio and profitability.

2. MERGER AND ACQUISITION: A LITERATURE REVIEW

Merger and Acquisition decision has some implications on the company's financial structure. Acquisition is often selected due to lower cost of production compare to other financial restructuring strategies such as Initial Public Offering (IPO) or liquidation. The ability of the company to develop synergy from the acquisition makes them easy to switch their product and/or market to one with low cost. Earlier study emphasizes that synergy through M&A gives a possibility for the company to lower its cost which improve the profitability (Bruner, 2014). In practice, lower cost of production is only part of the successful story. Capital liquidity is another side of story resulted from the M&A. This is since the payment and source of funds is the main issue in M&A process.

Payment has significant impact on the sources of fund. Earlier study by Schilingeman (2004 as cited on Fischer (2017)) notes the sources of M&A funding is often reflected through the form of payment (Fischer, 2017). Payment done by the acquirer determines the sources of funding. The selection of internal or external method affects the resources of fund as well as the ability of the company to provide free cash prior to the M&A. Cash, debt and/or equity financing are the most common options. The company may borrow the money from external which leads to the emergence of debt, or the company may spend its own money which leads to declining of the company's cash or equity. The management decision to pay the acquisition may reflect the structure of company's capital. The choice between internal cash and/or external debt financing has some implications on the M&A such as the potential conflict, risk, and announcement impacts of M&A (Martynova & Renneboog, 2009) including the payment method.

The theory of capital structure emphasizes the impacts of financing decision for the company from two perspectives. Firstly, static trade off theory emphasizes this situation for the advantages of taxes purposes (Myers, 1984). The availability of information and sufficient cash encourages the management to pay the M&A in cash. Pecking order theory asserts the role of excess cash to reduce risk and cost. Sufficient internal cash drives the company to use them as to reduce the potential risk. In this case, pecking order theory notes the crucial roles of internal financing in term of reducing risk and asymmetric information (Atiyet, 2012; Harris & Raviv, 1991; Myers, 1984).

The used of internal financing over the debt and external funding can also be driven by the possibility to reduce the financial cost. Meanwhile, the selection of internal funds is not limited to the requirement to reduce the risk. Earlier study shows that internal fund used is also aimed to lessen the company requirement to obey the capital market (Myers, 1984). In term of investment, internal funding allows the management to have the flexibility to manage the investment. The management is able to select the best level of investment or firm value maximizing (Shima, 2017). While the internal fund gives some benefits in term of flexibility and risk, the fund is potentially attracting the company's tax liability.

The capital structure theory also emphasizes the underlying of the payment selection on the financial sources and intensity of risk to be taken (Fischer, 2017). It is seen that M&A is no longer utilized as to maximize the value. It is likely to fulfill the management's view and interest.

For some companies, relying on external financing has the advantages to reduce the risk and taxes burden. The requirement to conduct M&A is not always supported by the money availability. This in particularly occurred when the M&A is driven by external factor such as the M&A wave or government requirement. The fact that debt is often used as the tool to rebalance the capital structure particularly when the value increases and debt value down (Myers, 1984), has encouraged the firm management to take the advantages of debt function. Besides the rebalance of capital structure, debt is often used as deduction of tax for interest payment (Atiyet, 2012).

The use of debt for business purposes has an impact on the tax payment. The interest from debt can be accumulated and used to deduct the tax payment. In practice, using the external funding has advantages on integration process. Earlier study shows that using external fund gives the opportunity for the bank lenders to assist the integration process and progress following the M&A (Fischer, 2017). It is viewed that external fund plays crucial roles not only in providing financial support; it also assists the company to meet the M&A financial goals. M&A which often seen as the preference option for lower the cost of production with sufficient opportunity to profitability, requires massive funds. The selection is not limited to amount of fund required; it is included the sources of the fund itself.

Previous study shows the possibility impacts of the selection on the value and market reaction (Martynova & Renneboog, 2009; Wong & Cheung, 2009) which becomes the motivation to conduct this study. The market reaction toward the government policy, may drive the company to take investment decision and action. Based on this, when the M&A occurred as the consequence of wave and the government requirement, limited time is needed for the bidder's management to make a financing decision, the extent to which this selection of financing affects the bidder's capital structure is the main topic of this study.

3. RESEARCH METHODS

This study is aimed examine the impacts of M&A wave on the acquirer's financial structure. The quantitative method is employed to test the relationship and effects of M&A and cost-efficiency as the indicators to measure the effectiveness of company to optimize its capital. Quantitative method is used mainly to test the relations between dependents and independent variables (Sanders and Manrodt, 1994) using the statistic tools. This study uses two-sample t-test as the statistic tool to test the relations between M&A wave and the BCA capital structure.

The test is mainly focused on the difference between the financial structure before and after the wave occurred. For this reason, the period of study is selected between 2011-2017, when 2014 is the focus of analysis. While BCA is experiences with two acquisition of CSF (2014 and 2017), the 2014 is the first time BCA acquired CSF from the third party (Sinar Mitra Sepadan) which becomes the focus of this study.

For this study, the M&A wave will be tested as focused on its impacts on financial indicators such as Return on Asset (ROA), Return on Equity (ROE), Operating Revenue over Operating Expenses (BOPO), Debt to Equity Ratio (DER), Expenses Ratio (OER), Net Interest Margin (NIM), Net Performing Loan (NPL), and Capital Adequate Ratio (CAR). From this analysis, the results will be used to analyze whether the M&A wave significantly impacts the capital structure of BCA as the acquirer company.

This result is also used to test whether the M&A is cost effectively. The data are collected from the BCA annual reports for the period of 2011 to 2017. The test is expected to give sufficient supporting evidence to analyze and answer in the extent to which the M&A wave affects the acquirer financial structure.

4. FINDING

As the common impacts of M&A on the acquirer financial structure, the CSF's acquisition affects the BCA's financial situation. The two main consequences from the transaction, are found through the cash flow and capital structure. While cash flow is affected by the payment and free cash flow, the capital structure is determined by the management decision to finance the acquisition. The BCA cash flows reveals there are massive changes on the bank's free cash flow from 2013 to 2014 as seen on Table 1. The free cash flow increases from Rp. -32,714 Million to Rp. 2,168 Million. Massive changes occurred is due to reselling the securities purchased under agreement and receipts of interest and sharia income, fee, and commissions. Focusing on the securities purchased under agreement to resell, the bank resells its securities agreement for Rp 14,765 Million in 2014.

This resell shows there is a significant fresh fund received by the bank during the period of acquisition in 2014. The massive fresh fund from resell the securities indicates that the company has sufficient fund. Despite the increasing of cash inflow, Table 1 presents the significant spending in 2013-2014 from Rp. 8,025 Million to Rp. 12,737 Million. The increasing of cash payment occurred due to the increasing of payment interest, fee, and commission as well as the operation expenses. These data reveal that the bank may pay its acquisition through its own fund as identified through the massive changes on the cash flow.

Table 1: BCA Financial Performance from 2011 to 2017

Year	Bank Total Revenue	Total Interest Expense	Net Income	Total Assets	Total Liabilities	Total Equity
2017	53,779,420	11,941,465	23,321.150	750,319,671	614,940,262	131,401,694
2016	53,940,569	10,346,736	20,605,736	676,738,753	564,305,676	112,433,077
2015	47,880,312	11,212,932	18,018,653	594,372,770	505,003,349	89,369,421
2014	41,291,536	11,744,562	16,485,858	553,155,534	477,667,375	75,488,159
2013	34,462,757	7,852,009	14,253,831	496,304,573	432,438,970	63,865,603
2012	28,161,190	7,647,167	11,721,717	442,994,197	391,167,422	51,826,775
2011	25,016,548	7,730,157	10,819,309	381,908,353	339,905,437	42,002,916

Sources: BCA Annual Report 2011, 2012, 2013, 2014, 2015, 2016, 2017

The 2017 acquisition presents different situation. The free cash flow declines massively from 2016 to 2017 due to decreasing of cash from operation and investment activities. The financial performance reveals that the company spends massive loans receivables from Rp. 29.298 Million in 2016 to Rp. 52.854 Million in 2017. The company spends amounts of money in securities purchased under agreement to resell which affects the cash position (Bank Central Asia, 2017).

The investing activities shows that during 2017, the bank receives less proceed from the security investment. Meanwhile, the bank financial report shows that there is an increasing in debt from Rp. 5.255 Million in 2016 to Rp. 9.505 Million in 2017. Bases on these data, the bank is less likely to have sufficient fund for the acquisition. Table 2 reveals that following the M&A of CSF, few changes occurred on the bank's financial situation.

The bank's asset increases slightly results from the operational activities. The other items such as revenues, net income, and total liabilities present similar results. Meanwhile, Table 2 shows that there is significant increasing on the company's debt from 5.25 Million in 2016 to Rp. 9,51 Million in 2017, while the free cash flow declines significantly from Rp. 42,94 Million in 2016 to Rp. 17,57 Million in 2017. It can be assumed that the acquisition of CSF makes significant different on the BCA financial situation besides the increasing of company's assets.

Table 2: BCA Financial Performance from 2011-2017

Year	Cash Receipts	Cash Payments	Changes in Working Capital	Total Debt	Capital Expenditures	Free Cash Flow
2017	62,896,141	(13,388,759)	(4,479,797)	9,505,740	(1,736,651)	17,570,536
2016	57,248,921	(11,824,521)	5,924,246	5,255,471	(2,728,366)	42,939,118
2015	54,590,864	(12,747,717)	(7,361,736)	4,602,904	(2,533,375)	26,925,651
2014	50,279,319	(12,737,919)	2,168,300	5,584,842	(2,661,220)	32,475,307
2013	40,463,212	(8,025,002)	(32,714,162)	3,633,799	(2,937,296)	(7,127,123)
2012	34,231,828	(7,920,324)	4,488,488	1,157,029	(3,211,877)	24,503,167
2011	28,760,417	(7,872,091)	(56,407,315)	1,164,695	(1,727,384)	(39,998,051)

Sources: BCA Annual Report 2011, 2012, 2013, 2014, 2015, 2016, 2017

In term of bank performance, the Indonesian government requires all the banks to follow the CAMEL approaches as mentioned on the Central Bank Regulation no 7/1992. CAMEL approaches emphasize the bank to present its capital, asset quality, management quality, earning performance, and liquidity performance as the indicators for measuring the performance of the bank. These financial indicators are presented through financial indicators such as Return on Asset (ROA), Return on Equity (ROE), Operating Revenue over Operating Expenses (BOPO), Debt to Equity Ratio (DER), Expenses Ratio (OER), Net Interest Margin (NIM), Net Performing Loan (NPL), and Capital Adequate Ratio (CAR). Table 3 shows these ratios of BCA during the period of study.

As shown on Table 3, some changes happen following the acquisition periods. In 2014, the bank shows significant changes on DER ratio. The DER performance increases from 5.7 to 7.4 percent, and then goes down in 2015 and 2016 for 5,2 and 4.4 percent respectively, before it goes up again in 2017 for 7.2 percent. The bank's BOPO and ROE constantly decline during this period of study. Meanwhile, ROA of bank is relatively stable as the performance of the NPL ratio. The bank NPL remains stable from the beginning of study with slightly increasing in 2016 and 2017. In contrast, the rest CAMEL indicators demonstrate fluctuate changes during the acquisition occurred as shown on Table 3 below. From this result, it can be concluded that the acquisition does not significantly affect the bank's ROA and NPL performance

Table 3: BCA Financial Ratios Performance

Year	**ROA**	**ROE**	**PM**	**NIM**	**DER**	**BOPO**	**LDR**	**NPL Ratio**	**CAR**	**OER**
2017	0.031	0.177	0.409	0.620	0.072	0.586	0.900	0.40	0.231	0.210
2016	0.030	0.183	0.382	0.324	0.047	0.604	0.907	0.30	0.219	0.192
2015	0.030	0.202	0.376	0.590	0.052	0.632	0.921	0.20	0.187	0.234
2014	0.030	0.218	0.399	0.298	0.074	0.624	0.894	0.20	0.169	0.284
2013	0.029	0.223	0.414	0.272	0.057	0.615	0.764	0.20	0.157	0.228
2012	0.026	0.226	0.416	0.234	0.022	0.624	0.686	0.20	0.142	0.272
2011	0.028	0.258	0.432	0.223	0.028	0.609	0.617	0.20	0.127	0.309

Sources : BCA Annual Report 2011, 2012, 2013, 2014, 2015, 2016, 2017

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In addition to financial performance indicators, the statistic tool is used to measure the impact of acquisition on the bank performance. The two-sample t-test is used as to examine this impact. The results are shown on Table 4 where the acquisition has significantly affected the ROA and DER only. The acquisition causes a change on the bank's ROA as the p-value is 2.684 which is higher than the t-test of 1.96 at alpha 5 percent. This means that the acquisition has a positive impact on the bank's ROA performance. The other impacts of acquisition are also seen through the DER performance. The impact of acquisition on the DER performance is as shown through the statistic result at 2.577 which is higher than t-test at alpha 5 percent for 1.96. This result also shows that acquisition has positive impact on the DER performance. While the CAR performance has not shown any change as the consequence of acquisition at alpha 5 percent, the statistic result shows that acquisition alters the CAR performance at alpha 10 percent. This means that the impact of acquisition can be found on the CAR performance, while the evidence is very weak.

Table 4: The Impacts of M&A on the BCA's Financial Ratios Performance

Variable	Mean	Standard Deviation	t-statistic	Pr (T > t)
Return on Asset	0.291	0.017	2.684	0.019
Return on Equity	0.212	0.278	1.775	0.101
Profit Margin	0.404	0.198	0.828	0.424
Net Interest Margin	0.366	0.167	0.971	0.351
Debt to Equity	0.505	0.020	2.577	0.024
Operational Cost over Operational Revenue	0.058	0.154	0.208	0.839
Loan to Deposits Ratio	0.813	0.123	1.164	0.267
Net Performing Loan Ratio	0.242	0.787	1.609	0.134
Capital Adequate Ratio	0.176	0.386	1.952	0.075
Operating Expenses Ratio	0.247	0.042	1.601	0.135

Sources : BCA Annual Report 2011, 2012, 2013, 2014, 2015, 2016, 2017

Based on the M&A impacts on the BCA's performance, it is seen that M&A impacts on BCA financial performance is very limited. The 2014 acquisition indicates that the bank relies on internal fund by selling its securities agreement to fund the acquisition. In contrast, the 2017 acquisition implies the external fund as shown through the increasing of debt performance. These situations are supported by the fact that DER performance increases significantly during the period of acquisition, while the NPL and ROA ratios remain stable. The two-sample t-test shows that the acquisition has only affected the company's ROA and DER ratio at alpha 5 percent.

5. DISCUSSION AND CONCLUSION

The case of CSF acquisition reveals the impacts of management decision on determining the fund to meet the government policies in the provision of SMEs financial assistance as well as NPL performance. An easy financial access for SMEs drives the emergence of massive M&A done by the Indonesia banks including BCA to reduce the risk. Neo classic model of capital structure shows that the change of political economic and easy access for the external fund leads to the emergence of M&A (Martynova & Renneboog, 2009).

The decision to conduct M&A is in particularly driven by the uncertainty of the Indonesia economic situation. High interest rate in

Indonesia during the period of study makes capital market less attractive for investors. Greenspan model shows that the increasing of interest rate hinders the investors interest (Blinder & Reis, 2005) to invest their money on risk investment. In contrast, the government privileges for SMEs and the incentive for banks for the provision of financial assistance for SMEs leads to potential conflict with the government requirement for the banks to present the NPL performance. Taking over the business is often considered as the way for the company to survive rather than diversification or restructuring (Martynova & Renneboog, 2009). For the Indonesia banks, M&A becomes the preferences to accommodate the government regulations that potentially in conflict.

The requirement to accommodate both the potential conflicting policies causes the acquisition used as the alternative of management synergy. The management synergy is often seen through diversification and/or restructuring. Focusing exclusively on diversification, earlier study of M&A shows that diversification through M&A gives the possibility for the company to develop the growth and value as well as to reduce the earning volatility (Martynova, M.; Renneboog, 2015; Martynova & Renneboog, 2009; Motis, 2007).

The fact that the acquisition of CSF is still in the same line of business with BCA Finance, synergy is used as the opportunity for the company to strengthen the financial structure as well as to reduce the earning volatility due to high reliance of subsidiaries. The data reveal that five out of six BCA subsidiaries are high capital reliance subsidiaries (Kurjana, 2016). This can potentially become a serious problem for BCA. BCA Finance is the only subsidiaries which financially independent. The slow growth of multi-finance industry drives BCA to find the other support to meet the credit financing expectations (Kania, 2017).

The financial report of BCA reveals significant interest income contribution of CSF for Rp. 947 Million equal to US$ 68.000 in 2014 (Bank Central Asia, 2014). In term of growth, the bank reported that in 2014, there is 68.5 percent increasing of the interest income following the acquisition of CSF. The CSF income interest itself contribution is around 56.6 percent (Bank Central Asia, 2014). The significant contribution of CSF is unequal to cost spent for the acquisition. Less considerable cost spent for acquisition caused less pressure and involvement from the shareholders for the management to conduct the acquisition (Kurjana, 2016). This is also supported by the fact; BCA does the continuing acquisition to hold majoring controlling on CSF in 2017.

The requirement to resolve the subsidiaries' financial issues is supported by the fact that CSF make huge contribution on the interest income. It is seen that the acquisition does not only strengthen the financial structure of BCA. The acquisition also facilitates the bank to reduce the potential bankruptcy due to financial burdens from its subsidiaries. The acquisition reveals that the company aims to spread the financial risk (Motis, 2007) rather than diversification or restructuring.

The acquisition is considered to assist the bank to reduce the earning volatility resulted from the subsidiaries poor performance.

The impacts of CSF acquisition are also seen on the BCA's financial structure. Two financial frameworka that often used as to analyze these are the fund sources and transaction. The fund sources for M&A reveals the information effects which often used by the investors to react toward the acquisition. The selection of financial fund resources stimulates the market reaction since the information of financial fund resources is crucial. The capital structure theory emphasized the impacts of the asymmetric information on determining the selection of financial fund (Harris & Raviv, 1991; Myers, 1984). Focusing on the CSF acquisition, it reveals as shown on Table 2 that the working capital and free cash flow increasing massively due to the re-selling of short-term securities purchased under agreement for Rp. 14.765 Million.

This situation explains that the bank does massive selling of intangible assets to have sufficient cash for its operation and investment (acquisition). Based on these data, the bank is able to acquire the CSF without reducing the bank's free cash flow. Using internal fund has some advantages for the company as mentioned previously. Pecking order theory notes that the company preferences to use internal financing is often driven by reducing risk of debt and to obey the capital market (Myers, 1984). In this CSF acquisition, internal funds are used to help the bank maintaining the NPL ratio performance, which is crucial, and to meet the government requirement in term of financial assistance for SMEs.

The 2017 acquisition presents different capital structure. For the 2017 acquisition, the bank relies on external funding as shown on the bank's free cash flow on Table 2. The free cash flow declines massively due to decreasing cash from operation and investment from 2016 to 2017. While there is slightly change within the operational cash flow, financing activities show there is increasing in debt Rp. 5.255 Million in 2016 to Rp. 9.505 Million in 2017.

The company also indicates the declining of proceed from security investments. At the same time, the company spends more money on providing loans and receivables. This situation shows that the bank may not have sufficient cash for continuing the acquisition. At the same time, the CSF contribution is still needed particularly to prevent the declining of bank performance. Static Trade off theory emphasizes the use of debt as to maximize the firm value (Atiyet, 2012). While it may be just a coincident since the company spends huge amount of money on providing loans and receivables, the use of external financing for continuing the acquisition is indicated through increasing of debt structure. There are some factors that encourage the decision on external funds.

The selection of external funds is often encouraged by the asymmetric information and taxes purposes. Earlier study notes that company with large asymmetric information has a tendency to rely on external financing (Atiyet, 2012).

Limited information regarding the payment for CSF acquisition supports the theory in relations with the emergence of external funding. Meanwhile, the reason for company to use external funding is due to taxes purpose (Atiyet, 2012; Fischer, 2017; Myers, 1984). In practice, for CSF acquisition, the tax payment does not give sufficient evident to support the theory.

The impact of M&A transaction is also identified through the market reaction on the company's return. Acquisition is often seen as the good news for investors since the investors have a chance to generate more returns. Earlier study shows that M&A may have positive impacts on the stock price following the announcement unless there is no agency issues and the managers do not own equity (Martynova, M.; Renneboog, 2015). In practice, management interest often influences the M&A decision where the agency issues developed. The impact of CSF acquisition and market reaction on the BCA return is measured by the CAR performance. Earlier study shows that abnormal return around the M&A announcement often has positive results on the bidder company at the post-announcement period, while the target company usually presents negative results of the abnormal return (Wong & Cheung, 2009).

The study reveals a positive response for BCA as shown on Table 3. Table 3 presents that the CAR performance is gradually increasing from 0.127 to 0.231 during the period of study. Meanwhile, during the period of acquisition, in 2014 and 2017, the bank's CAR ratio presents relatively small changes. This indicates the positive responses for the acquisition.

Focusing exclusively on the changes during acquisition periods, Table 5 below shows the CAR ratio performance changes during the acquisition period. The week range of time (-7, +7) shows an increasing of CAR performance from -12 percent to 1.53 percent, while the fortnight period (-14, +14) has 6.08 percent increasing of CAR performance. A month performance period shows that (-30, +30) CAR performance is increasing from -5.73 percent to 2.55 percent or around 8.28 percent.

This situation indicates that acquisition is good news for BCA as seen through the abnormal return post-announcements. However, the small changes also indicate a skeptic market toward the BCA management decision on the acquisition. The changes are relatively small and less attractive for the investors. These may be reasoning the market responds skeptically toward the acquisition.

Table 5 : CAR BCA vs LQ 45 Performance

	Cumulative Return (BBCA v LQ45)	
Indicators	Before	After
CAR (-7, +7)	-2.12 %	1.53 %
CAR (-14, +14)	-3.47 %	2.61 %
CAR (-30, +30)	-5.73 %	2.55 %

In sum, the government new policy to the provision of financial assistance for SMEs conflicts with the requirement of banks' NPL performance. M&A is used by numbers of Indonesia banks, including BCA to accommodate the regulations requirements. The acquisition of CSF mainly aims to meet these requirements. In practice, NPL performance is not the only reason for the bank to acquire the CSF. Massive contribution of CSF prevents the bank from potential financial losses due to high reliance of subsidiaries on financial supports.

This drives the management to find the financing option for continuing the acquisition. The continuity acquisition also reveals the requirement for the bank to have stable and sufficient capital. Finally, the potential policies conflict become the driving factors for the banks to prioritize the selection of funding to maintain the sufficient of capital and loan performance.

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