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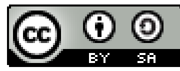

Comparative Study of Financial Performance of Issuers on Indonesian Stock Exchange during and after Merger and Acquisition Strategy

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Abstract

The merger and acquisition strategy has become the main choice of large companies in improving their financial performance and improving their position in the market. This study aims to determine the effect of merger and acquisition strategies on the financial performance of companies on the Indonesia Stock Exchange. This study uses a quantitative approach with a population of companies that conduct mergers and acquisitions on the Indonesia Stock Exchange from 2018 to 2022. Data was collected from the company's financial statements and analysis was carried out using financial ratios such as Current Ratio, Total Assets Turnover Ratio, Debt to Equity Ratio, and Return on Equity The results showed that the merger and acquisition strategy had no significant effect on the financial performance of companies on the Indonesia Stock Exchange. This study shows that the merger and acquisition strategy has no significant impact on the financial performance of companies on the Indonesia Stock Exchange.

Keywords: Strategy, Merger and Acquisition, Financial performance

Introduction

Globalization is a complex phenomenon that involves interconnections and interdependencies between countries, companies, and individuals around the world. In an economic context, globalization includes the integration of markets and the flow of capital, goods and services across national borders. Economic globalization is a global economic life that is open and does not recognize territorial boundaries, or territoriality between one region and another. Trade globalization is manifested in the form of tariff reduction and uniformity as well as the elimination of various non-tariff barriers, so that trade activities and competition become faster, tighter, and fairer.

In an increasingly fast and dynamic business competition, companies are looking for innovative strategies to win the tough competition. One strategy that is often used is mergers and acquisitions. This strategy helps companies strengthen their market position, improve operational efficiency, and achieve competitive advantage. In addition, M&A also provides opportunities to gain greater access to resources, technology, and markets that support growth amid increasingly fierce competition.

Mergers and acquisitions in strategy aim to strengthen the marketing network for each company's products, product development, mastering distributors in order to be more efficient in making products, to diversify the company's portfolio where companies acquire other companies to make profits other than in the parent industry. To see how mergers and acquisitions as a frequently used strategy can be proven through the Boston Consulting Group (BCG) report that there are 180,157 transactions within 4 years from 2018-2022 worldwide, this illustrates that in the business world Mergers and acquisitions are relatively common and even an effective strategy if we look at the data.

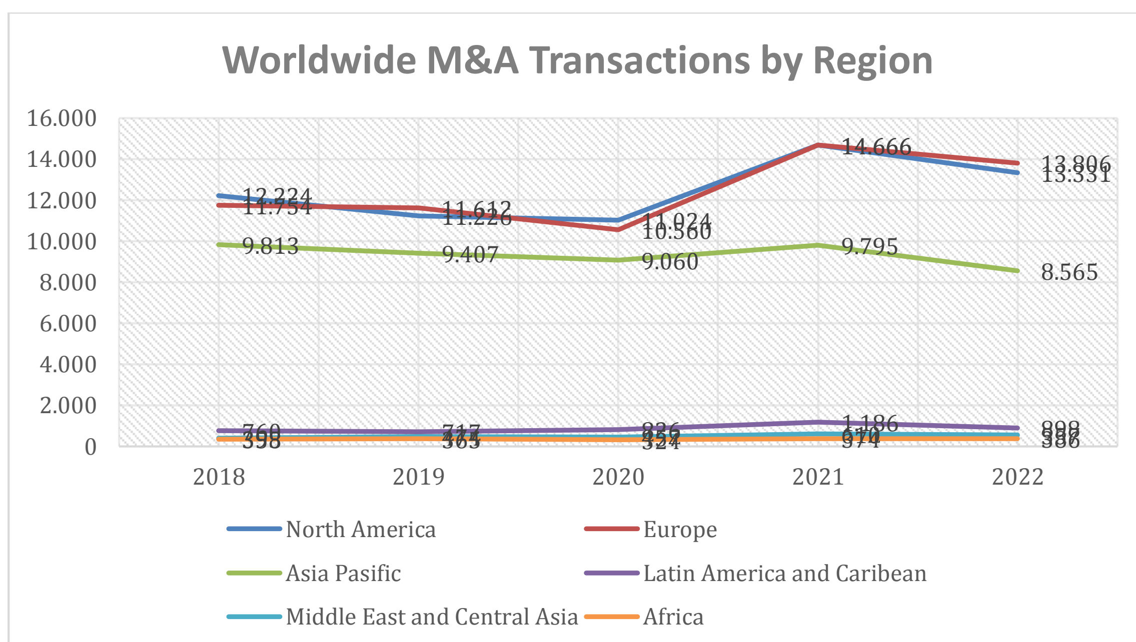

Figure 1 Worldwide M&A Transactions by Region

Based on Figure 1, worldwide M&A activity from 2018 to 2022 shows that North America is in first place with 62,432 deals, followed by Europe with 62,398 deals, Asia Pacific with 46,640 deals, and so on. The data only shows the number of deals, but for which industries are doing mergers and acquisitions, it can be seen as follows:

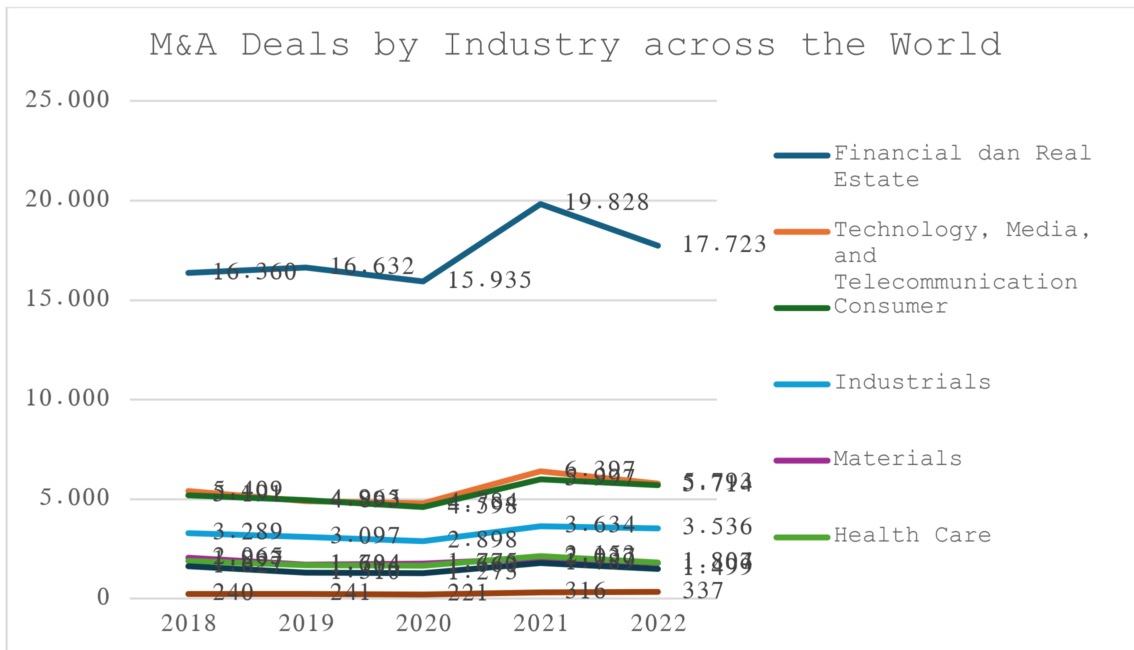

Figure 2 M&A Deals by Industry Worldwide

Based on Figure 2, mergers and acquisitions (M&A) activities in various industries from 2018 to 2022 show that the financial industry tops the list with 84,480 deals, followed by Technology, media, and telecommunications with 27,276 deals, consumer with 26,465 deals, industrial with 16,454 deals, materials with 9,385 deals, healthcare with 9,201 deals, energy and utilities with 7,498 deals, and government with 1,355 deals.

The company's financial performance describes a company's financial condition in a certain period, the company's financial performance can also be seen as a measure of the company's success in generating available profits on the capital that has been invested. The company's financial performance is the achievement of the company in a certain period that reflects the health level of the company (Sutrisno, 2009: 53). In looking for financial performance measures can be done by measuring liquidity ratios, activity ratios, solvency ratios, and profitability ratios. These ratios are chosen strongly to determine the company's financial condition regarding the impact of mergers and acquisitions. In the context of mergers and acquisitions, liquidity can affect the smooth operation and financial balance after the transaction. Activity can tell how changes in corporate structure can affect the way assets are utilised and managed. Solvency can be greatly affected by structural changes such as additional debt, and business profitability can be affected by changes in capital structure and operations.

Based on research conducted by Dewi (2020), it shows that there is no significant difference in financial performance between before and after M&A, it is possible that the company has not achieved synergy after mergers and acquisitions. Research conducted by Fahlevi (2020) shows that the merger and acquisition process has no significant effect on the company's financial performance both 1 year and 2 years after the merger and acquisition process, overall M&A does not always provide positive benefits in short-term financial performance. Another study conducted by satapathy (2022) shows that the financial performance of the acquiring company decreased after mergers and acquisitions in india which did not bring the expected synergistic benefits. Research conducted by Nawir and Christopher

(2023) showed a comparison of financial performance and company value before and after M&A concluded that there were no significant differences in profitability, liquidity, activity, and solvency ratios, this indicates that M&A does not always guarantee an increase in company performance. However, different results in research researched by Olesia (2023) show the results that there are changes in liquidity and solvency ratios that are also reinforced by profitability ratios, the bright spot in the Tesla case is that the solvency ratio has improved over time which is attributed to the financial flexibility of the newly integrated entity. Research by Kyriazopoulos (2023) shows that acquisitions seem to have a negative impact in the short term, giving more time to see the economic benefits in the long term.

Literature Review

Business Strategy

According to Mahmud and Anomsari (2011), business strategy is the ability of entrepreneurs / companies in analysing the company's external and internal environment, formulating (formulating) strategies, implementing (implementing) plans designed to achieve company goals, and evaluating to get feedback in formulating future strategies.

Business strategies can be divided into four types: integration strategies, intensive strategies, diversification strategies, and defensive strategies. Integration strategies include forward, backward, and horizontal integration, which aim to increase control or ownership over distributors, suppliers, or competitors. Intensive strategies consist of market penetration, market development, and product development, which focus on increasing market share, introducing products into new territories, and increasing sales through product improvements. Diversification strategies include the expansion of products either goods or services, with two types, related and unrelated. Defensive strategies include downsizing, divestment, and liquidation, which are carried out to reverse declining sales and profits, reduce costs, or sell assets that are not more profitable.

Merger

Merger is a combination of two or more companies that merge into one new company. In a merger, companies that have more assets and a greater level of profit will still be left standing, while companies that have a smaller size will be dissolved (Sartono, 2001: 365). Merger is one of the strategies taken by the company to develop and grow the company. In addition, mergers can create a banking system that is healthy, efficient, resilient, and able to compete, efforts are needed that can encourage banks to strengthen themselves, including by conducting mergers.

Acquisition

According to Moin (2003) Acquisition in business terminology is defined as the acquisition of ownership or control of the shares or assets of a company by another company, and in the event that either the acquiring or the acquired company continues to exist as a separate legal entity. Meanwhile, according to the Indonesian Institute of Accountants in the

statement of Indonesian financial accounting standards Number 12 (PSAK No. 22) defines acquisition as a business combination in which one of the companies is the acquirer so that it will result in the transfer of control over the acquired company. Usually the acquiring company has a larger size than the acquired company.

Motives for Mergers and Acquisitions

Companies often choose mergers and acquisitions as their strategy to achieve their goals. Whether for synergy, diversification, and growth, mergers and acquisitions (M&A) can also be differentiated based on the reasons why they occur. There are two main reasons why mergers occur. In general, mergers are done for two reasons. The first reason is to increase the value of the company, as mergers increase the company's future profits (Shareholder Gain). Shareholders are the ones who benefit from the merger The next eight merger motives will address this first motive: growth, operating synergies, financial synergies, diversification, horizontal integration, vertical integration, improved management performance, and tax motives. The second reason is that mergers are done for the benefit of the firm's managers (managerial gains) and not necessarily in the interest of the firm. In other words, mergers are solely for the benefit of management to gain profits not owners, in this motive it is divided into two, namely: Hubris and Discretion motives.

Financial Performance

Financial performance is an analysis conducted to see the extent to which a company has carried out using the rules of financial implementation properly and correctly. Company performance is a description of the financial condition of a company that is analysed with financial analysis tools, so that it can be known about the good and bad financial condition of a company that reflects work performance in a certain period. This is very important so that resources are used optimally in the face of environmental changes (Fahmi, 2011: 2).

Measuring the company's financial performance involves critical data analysis, calculation, measurement, interpretation, and resolution of financial problems over a period of time. The purpose of measuring financial performance is to determine the level of liquidity, solvency, profitability, and stability of the company. Liquidity shows the company's ability to meet financial obligations that must be resolved immediately, solvency shows the company's ability to meet its financial obligations if liquidated, profitability or profitability shows the company's ability to generate profits, and stability shows the company's ability to conduct its business stably and pay debts and interest expenses on time.

Research Method

This study uses a comparative approach. According to Sugiyono (2017: p. 36) comparative research is research that compares the existence of one or more variables in two different samples, or at different times. Where in this study researchers compared one variable with two different objects. In finding how the financial performance of issuers on the Indonesia Stock Exchange (IDX) differs before and after mergers and acquisitions. The comparison method is used to determine the Current Ratio (CR), Total Asset Turnover Ratio (ATR), Debt

to Equity Ratio (D/R), and Return on Equity (ROE) before and after mergers and acquisitions.

A sample is a sub-group of a population. The sample consists of the number selected from the population (Sekaran & Bougie, 2016). The sample selection technique in this study used purposive sampling technique. According to (Sugiyono, 2019), purposive sampling is a data source sampling technique with certain considerations. The sample we examined in this study, issuers on the Indonesia Stock Exchange (IDX) who carried out mergers and acquisitions from 2018 to 2022 met the following criteria:

Table 1 Sample criteria

No.	Criteria	Total
1	The company made an announcement to the Business Competition Supervisory Commission (KPPU) in the research period	61
2	The company did not resell the acquired company during the observation period.	(1)
3	Companies that make acquisitions and the results of company mergers have the availability of complete financial reports starting from one year before the occurrence of merger and acquisition activities and one year after the occurrence of mergers and acquisitions.	(8)
4	The acquirer and merged companies conducted a maximum of one merger and acquisition activity during the study period.	(17)
5	The company is not engaged in the Transport and Logistics, Environment and Waste Management sectors	(2)
6	Companies not in the Healthcare and Pharmaceutical sector	(5)
	Number of research samples	**29**

A total of 29 companies were selected to be used as samples in this study based on these criteria.

Operational Variables:

1. Current Ratio
   Measures the company's ability to pay short-term obligations or debts that are due immediately when billed as a whole.
   CR = Current assets/Current liabilities
2. Total Asset Turnover Ratio
   Describes asset turnover as measured by sales volume.
   ATR = Sales/total assets
3. Debt to Equity Ratio
   The company's ability to fulfil its obligations using existing capital.
   DER = Total Debt/Capital
4. Return on Equity
   A measure of profitability from a shareholder's perspective and is the tool most often used by investors in making investment decisions.
   ROE = Net Profit After Tax / Equity

Result

Descriptive Statistics

Descriptive statistical analysis is a research data analysis method that aims to test the quality of research data by learning about collecting, processing, and presenting data, as well as making pictures or diagrams about things that will be presented in an understandable form (Subagyo, 2003).

Table 2 Descriptive Statistical Analysis Results

Variables	Observation	Minimum	Maximum	Mean	Std. Deviation
Liquidity Ratio at Moment	29	27	626	196.52	153.035
Liquidity Ratio After	29	17	758	237.69	187.815
Activity Ratio at Moment	29	1	273	45.28	54.311
Activity Ratio After	29	1	274	45.48	54.911
Solvency Ratio at Moment	29	13	620	167.21	145.695
Solvency Ratio After	29	11	475	141.69	123.386
Profitability Ratio at Moment	29	-34	66	7.86	15.959
Profitability Ratio After	29	-20	19	5.10	8.347

The liquidity ratio during mergers and acquisitions using the current ratio calculation has a minimum value of 27 while the maximum value is 626 with a mean of 196.52 and a standard deviation of 153,035. while the liquidity ratio after mergers and acquisitions has a minimum value of 17 while the maximum value is 758 with a mean of 237.69 with a standard deviation of 187,815.

The activity ratio during mergers and acquisitions using the calculation of the total asset turnover ratio has a minimum value of 1 and a maximum value of 273 with a mean of 45.28 and a standard deviation of 54.311. While the activity ratio after mergers and acquisitions has a minimum value of 1 while the maximum value is 274 with a mean of 45.48 and a standard deviation of 54.911.

The solvency ratio during mergers and acquisitions using the calculation of debt to equity ratio has a minimum value of 13 and a maximum of 620 with a mean of 167.21 and a standard deviation of 145.695. While the solvency ratio after mergers and acquisitions has a minimum value of 11 and a maximum of 475 with a mean of 141.69 and a standard deviation of 123.386.

The profitability ratio during mergers and acquisitions using the calculation of return on equity has a minimum value of -34 and a maximum of 66 with a mean of 7.86 and a standard deviation of 15,959. While the profitability ratio after mergers and acquisitions has a minimum value of -20 with a maximum of 19 with a mean of 5.10 and a standard deviation of 8,347.

Normality Test

The normality test is used to determine whether the distribution of data in data groups or variables is normally distributed. In this study, the normality test used is the Kolmogorov-Smirnov test method to test the distribution of data or the level of normality. If the Sig. value

of the normality test is greater than the confidence level used, which is 95%, or α = 5%, then the sample is considered normally distributed. In other words, if the Sig. value is greater than 0.05, then the data is considered normally distributed, while if the Sig. value is lower than 0.05, then the data is not considered normally distributed. The results of the normality test for liquidity, activity, solvency, and profitability ratios using the Kolmogorov-Smirnov test method are presented below.

Table 3 Normality Test Results

	Kolmogorov-Smirnov			**Information**
	Statistic	***df***	***sig***	
Liquidity Ratio	.186	58	.000	Abnormal
Activity Ratio	.206	58	.000	Abnormal
Solvency Ratio	.143	58	.005	Abnormal
Profitability Ratio	.167	58	.000	Abnormal
a.Liliefors Significance Correction				

Based on the Kolmogorov-Smirnov normality test, it is known that the data on liquidity ratios, activity ratios, solvency ratios, and profitability ratios show abnormalities so that Wilcoxon Signed Ranked Test is used.

Wilxcoxon Signed Ranked Test

Table 4 Wilxcoxon Signed Ranked Test Results

Variable	**Period**	***Sig.***	**Result**
Liquidity Ratio	At Moment	.054	No Significant
	After		
Activity Ratio	At Moment	.492	No Significant
	After		
Solvency Ratio	At Moment	.172	No Significant
	After		
Profitability Ratio	At Moment	.322	No Significant
	After		

Table 4 shows the results of the interpretation of tests that have been carried out using the Wilcoxon signed ranked test method on the financial performance of issuers during and after mergers and acquisitions in the 2018-2022 period. The table shows the value of the liquidity ratio, activity ratio, solvency ratio and profitability ratio. The Liquidity Ratio shows that the Sig. value is .054 which means it is not significant. The activity ratio shows that the

Sig. value is .492 which means it is not significant. The solvency ratio shows that the Sig. value is .172 which means not significant. The profitability ratio shows that the Sig. value is .322 which means insignificant. So it can be concluded that there is no significant difference in financial performance during and after the merger and acquisition strategy.

Discussion

Effect of M&A on Liquidity Rasio

Based on the results of the Wilcoxon Signed-Rank Test non-parametric statistical test, it shows that there is no significant difference in liquidity ratios in issuers that conduct during and after M&A in the 2018-2022 period. The test results show that there is no significant difference in liquidity ratios during and after M&A, which means that mergers and acquisitions have no impact on liquidity ratios.

Effect of M&A on Activity Rasio

Based on the results of the Wilcoxon Signed-Rank Test non-parametric statistical test, it shows that there is no significant difference in the activity ratio using the calculation of the Total Assets Turnover Ratio (ATR) in issuers that conduct during and after M&A in the 2018-2022 period. The value test results show that there is no significant difference in the activity ratio during and after M&A, which means that mergers and acquisitions have no impact on the activity ratio in this study.

Effect of M&A on Solvency Rasio

Based on the results of the Wilcoxon Signed-Rank Test non-parametric statistical test, it shows that there is no significant difference in the solvency ratio using the calculation of the debt to equity ratio (DER) in issuers that perform during and after M&A in the 2018-2022 period. The test results show that there is no difference in the solvency ratio during and after M&A, which means that mergers and acquisitions have no impact on the solvency ratio in this study.

Effect of M&A on Profitability Rasio

Based on the results of the Wilcoxon Signed-Rank Test non-parametric statistical test, it shows that there is no significant difference in the profitability ratio using the calculation of return on equity (ROE) in issuers that conduct during and after M&A in the 2018-2022 period. The test results show that there is no significant difference in the solvency ratio during and after M&A, which means that mergers and acquisitions have no impact on the profitability ratio in this study.

Conclusion

This study concludes that mergers and acquisitions do not have a significant impact on the financial performance of issuers on the IDX during and after mergers and acquisitions in

the 2018-2022 period. The financial performance includes liquidity ratio with the calculation of Current Ratio (CR), activity ratio with the calculation of Total Assets Turnover Ratio (ATR), solvency ratio with the calculation of Debt to Equity Ratio (D/E), and profitability ratio with the calculation of Return on Equity Ratio (ROE).

The suggestions given in this study include theoretical and practical aspects. The theoretical aspect is intended for further research, while the practical aspect is intended for company management, investors, and future researchers. For investors, it is recommended to conduct a deeper investment analysis and conduct in-depth research not to invest in a company based on merger and acquisition events, because this study shows that mergers and acquisitions do not significantly affect the financial performance of issuers. For company management, it is recommended to consider making merger and acquisition decisions on long-term business growth to provide benefits to shareholders in the long term in increasing company valuation.

Declaration of conflicting interest

The authors declare that there is no conflict of interest in this work.

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