CHAPTER I

INTRODUCTION

1.1. Background of The Problem

The era of globalization is an era where changes and developments in the world continue to occur every day. The existence of changes and developments that are getting faster in the business environment can be used as a threat to the company. The way that can be taken by the company to maintain a business is to apply the right business strategy. As is the opinion by (Laiman et al., 2017), that in the era of globalization and free trade every company is required to continue to develop strategies. Strategy development can create a competitive advantage in order to be able to compete with competitors. In line with the opinion of David & David (2015: 240) that the company's strategy can succeed in competition in the industry if the company has a competitive advantage.

To gain a competitive advantage, companies must look for unique things that can be used as a strength to be able to compete with competitors. One of them is to look at the company's performance, especially if the company is a public company. Where, the assessment of the company's performance is fundamental before deciding to invest. Evaluation of company performance is important as a basis for making decisions on improving performance or creating new strategies in the short and long term. An example of a long-term strategy that can be implemented is to restructure the company.

Restructuring is a number of actions chosen by companies to gain competitive advantage. Restructuring is seen as an expansion for companies to improve financial performance and profitability because, related to the consequential reorientation of assets, finances or ownership structures to adjust future cash flows (Kurniati & Asmirawati, 2021). Merger and acquisition activities are one of the restructuring activities that will gain competitive advantage and industry dominance. As Tarigan et al., (2016:14) argue in his book, mergers and acquisitions are an option when a company wants to gain a competitive advantage.

According to (KPPU, 2020), the definition of a merger or merger is a legal act carried out by one or more business entities to merge with another existing business entity which results in the assets and liabilities of the merging business entities being transferred by law to the legal entity. the business that received the merger and then the status of the merging business entity ended due to law. While the definition of an acquisition is a legal act carried out by a Business Actor to take over shares of a business entity resulting in a transfer of control over the business entity. According to (Suharyono, 2020) the regulations of the Capital Market and Financial Institution Supervisory Agency (BAPEPAM), the term merger is replaced by business combination or business consolidation, while acquisition is replaced by business takeover.

Before a company merges or acquires, the general reason for making the decision is that one company or both companies do not perform effectively and efficiently, have difficulty generating profits in accordance with company objectives and are unable to generate economic added value. For example, Bank Mandiri is a company implementing an expansion strategy by conducting a merger. Bank Mandiri is a combination of 4 banks namely, Bank Bumi Daya, Bank Dagang Negara, Bank Ekspor Impor Indonesia and Bank Pembangunan Indonesia. The reason for the merger was because the government assessed that the soundness of these banks was not good, which was caused by the monetary crisis. To improve the situation in the banking industry during the monetary crisis, at that time the solution to a merger was the most effective choice.

Merger and acquisition activities are becoming more frequent along with the increasing number of regulations and support provided by the government related to merger and acquisition activities. Based on data obtained from ICC, the growth of merger and acquisition practices in companies in Indonesia continues to increase even though it fluctuates. The list of companies that have carried out mergers and acquisitions come from various business sectors, both financial and non-financial. The following is a graph regarding the number of companies that announced Mergers and Acquisitions.

Graphics 1. 1

Data of Merger and Acquisitions (ICC)

Among the data that obtained by the Indonesia Competition Commission (ICC), banking is one of the industries that also practices Mergers and Acquisitions. This is because banks, as institutions that can drive the wheels of the national economy, must have good performance, be highly competitive and be contributive in supporting national economic growth. Some of the roles carried out by banks are carrying out the transmission function, namely controlling the amount and traffic of money circulation. The second is to carry out the intermediary function, banking as a business entity that collects and distributes funds from and to the public. Third, transforming and distributing risk in an economy. And as an instrument to stabilize economic conditions.

The banking contribution to the national economy is reflected in the active role of banks in accelerating the recovery and financing of the national economy, increasing the role of banks in deepening financial markets, expanding access and increasing financial education, and increasing banking participation in sustainable financing (Otoritas Jasa Keuangan, 2021). The condition of a healthy banking structure and highly competitive advantage is the main capital in encouraging optimal economic growth and improving people's welfare. However, conditions in national banking are still not in that condition.

One of the reasons banks implemented M&A is because of regulations regarding minimum capital adequacy. On December 12, 2016, Bank Indonesia (BI) stipulated a regulation regarding the minimum capital adequacy requirements for commercial banks as stipulated in BI Regulation No.15/12/PBI/2013. This regulation was issued so that banks are able to overcome risks and potential losses due to crises and excess credit. Because, capital is a basic aspect needed in operational activities both for business expansion, provision of infrastructure, handling unexpected risks and losses, and safety nets in critical conditions.

The capital structure is also the main focus of the OJK to create a sound national banking structure. The strengthening of the capital structure is the existence of Basel III provisions where commercial banks increase their minimum capital by 10.5%. For companies that cannot comply with the rules for providing capital, the OJK will issue a firm action, which will issue an order to carry out a merger, consolidation and takeover, conversion from a commercial bank to a people's credit bank, or independent liquidation. Thus, many small banks ended up doing mergers and acquisitions. Like the opinion (Suharyono, 2020), according to him, mergers and acquisitions are a form of response from companies in dealing with threats that are influenced by changes in the internal and external environment.

In addition, the competitiveness and business scale of Indonesian banking in 2019 is still low compared to banks in several Asian countries (Otoritas Jasa Keuangan, 2021). In Indonesian banking, business scale determines competitiveness and business expansion. Competitiveness is needed so that the Indonesian banking industry is able to compete in the domestic and global markets. The low business scale reflects that the banking industry is currently more concerned with quantity which is not accompanied by an increase in quality. Based on these conditions, it will take a long time to reach a highly competitive banking condition. Then the expansion strategy by carrying out mergers and acquisitions is appropriate. Because, collaboration between banks can form a business group with high business capacity and competitiveness for the bank that does it.

For this reason, the Financial Services Authority (OJK) supports merger and acquisition activities in banks by issuing a regulation contained in POJK No.12/POJK.03/2020, concerning Consolidation of Commercial Banks. In this regulation, the Financial Services Authority (OJK) formulates a strategy to encourage consolidation in the form of mergers, acquisitions and consolidation for commercial banks. The Financial Services Authority (OJK) explained that the aim of encouraging consolidation in the form of mergers and acquisitions is to support national economic stability and growth, strengthen structure, be resilient to risk, and be highly competitive so that they are able to compete in both the domestic and international markets.

Banking is an industry that is prone to risks, such as the risk of failure in refunding affects on non-permforming loan and impacts on bank profitability. Risks to banking can be minimized and overcome by paying attention to the company's performance. Performance in banking can be seen through analysis of financial ratios. This is in accordance with PBI No.13 article 1 paragraph 4 of 2011 that, Bank Soundness Level is the result of an assessment of the condition of the Bank which is carried out on bank risk and performance.

In banking, there are 3 financial ratios that are considered important, namely the liquidity ratio, solvency ratio and profitability ratio. The liquidity ratio is related to the bank's ability to pay debts, liquidity in banks is considered important because the funds that enter the company at any time will be withdrawn again by customers. When a bank cannot return customer funds, the company's performance is not good which results in a level of trust. If these conditions are sustainable, it is possible that the risk of bankruptcy will increase because the company's income decreases.

Decreased income will have an impact on the percentage of profitability ratios. In the investor's position the level of profitability is something that is important and used as a benchmark in investment actions. Because investors want results in accordance with the funds that have been issued and the risks borne.

When a company shows good profitability performance, the company's opportunity to get capital from investors will be even greater.

The solvency ratio or banking capital ratio is important in assessing company performance. The existence of provisions from BI regarding the provision of Minimum Capital Adequacy Requirements (KPMM) is needed so that banks can overcome risks that will occur both in the short and long term. Therefore, capital is also the main focus for OJK in its aim to strengthen the banking structure in Indonesia.

After deciding to carry out merger and acquisition activities, it is expected to have a positive impact on the company. In theory, companies can improve company performance due to additional capital after mergers and acquisitions. Companies that can optimize their capital will also increase revenue, accompanied by profit growth. In accordance with the opinion of (Dewi & Widjaja, 2021), that mergers and acquisitions will have a major impact in improving the company's financial performance. However, several studies have found that there are inconsistent results regarding the performance results and the impact of mergers and acquisitions on companies.

Case studies in previous research conducted by (Pratito & Puspitasari, 2016) with research objects of companies in Indonesia that carried out mergers and acquisitions in 2012 showed that the ratios analyzed were NPM, ROI, ROA, ROE, TATO, FATO, EPS, PER, CR, QR, DR and DER, only DR and DER experienced an increase, while 10 other financial ratio variables decreased after a merger or acquisition.

In another study conducted by (Irawan & Edi, 2021), with the object of research of companies in Indonesia that carried out mergers and acquisitions in 2010-2014, the results showed that after mergers and acquisitions the ratios of OPR, ROCE, EPS, ROA, RONW, CR, QR, DTE there is a significant difference. Whereas in the ratios of GPR, NPR, ROA, ICR, ATD, EQ there is no difference.

In research conducted by (Mamahit et al., 2019), an analysis using the Wilcoxon signed rank shows that profitability ratios such as ROA, ROE, OPM, and NPM have significant differences after mergers and acquisitions. Meanwhile, there is no significant difference in the liquidity ratio after mergers and acquisitions.

There is no guarantee that after the Mergers and Acquisitions the company will get good results. Difficulty in aligning cultures between organizations, inability to achieve strategy, inadequate evaluation of targets one of the reasons put forward by oleh David & David (2015:159) why mergers and acquisitions fail. Gamble et al. (2019:122) also said that the failure of Mergers and Acquisitions was caused by differences in corporate culture, differences in management styles and operating procedures and also the costs incurred turned out to be higher.

Based on the background and inconsistent answers from previous research, a review is needed to find out how mergers and acquisitions impact the banking financial performance. Much research has been conducted to analyze the impact of mergers and acquisitions on a company's financial performance. Therefore, the authors are interested in conducting research by applying several differences from previous research, namely by distinguishing the research object, research year and research variables. This study aims to determine whether there are differences in financial performance before and after mergers and acquisitions. While the subject of this study is the company's financial performance by analyzing financial ratios.

1.2. Scope of Research

The following is an explanation of the scope of the research:

a. Research Variable

   This study uses financial performance analysis as a basis for comparison. The following are the financial performance variables used QR (Quick Ratio), LDR (Loans to Deposits Ratio), CAR (Capital Adequacy Ratio), DER (Debt Equity Ratio), ROA (Return on Asset) and ROE (Return on Equity).

b. Research Data

   The data used to take samples of research objects are data from 2008-2019. Meanwhile, financial data is taken from monthly financial statements and/or each company with a time period of 1 year before the merger and acquisition period and 1 year after the merger and acquisition period. The limitation of data collection is the year the M&A was carried out according to the implementation date of each company.

c. Research Object

The object of this research is a banking company that implement mergers and acquisitions in 2008-2019. The research sample was taken using a purposive sampling technique. The following is the object of research to be carried out:

1. PT. Bank Bank Maybank Indonesia, Tbk.
2. PT. Bank CIMB Niaga, Tbk
3. PT. Bank OCBC NISP
4. PT. BRI Agroniaga, Tbk
5. PT. BTPN, Tbk
6. PT. Bank MNC Internasional, Tbk
7. PT. Bank Woori Saudara Indonesia, Tbk
8. PT. Bank Andara, Tbk
9. PT. Bank Danamon, Tbk
10. PT. Bank Dinar Indonesia, Tbk
11. PT. BTPN, Tbk
12. PT. Bank Danamon, Tbk
13. PT. Bank Oke Indonesia, Tbk
14. PT. IBK Indonesia, Tbk

d. Research Time Period

The research process will take approximately 6 months starting from April 2022 to October 2022.

1.3. Problem Formulation

Not getting effective and efficient performance, difficulty in generating profits, and not being able to generate economic added value are common reasons why mergers and acquisitions are carried out. In banking, the reason specifically is because the company cannot meet the minimum capital according to the rules. Competitiveness and low business scale are the reason Financial Services Authority (OJK) is pushing for consolidation in the form of mergers and acquisitions. It is hoped that after the mergers and acquisitions the condition of the company will experience positive changes. Based on previous research, the answers regarding the impact of mergers and acquisitions on companies are inconsistent.

The following is the formulation of the problem based on the background that has been described:

a. Is there a difference in QR at the bank before and after the Merger and Acquisition?
b. Is there a difference in LDR at the bank before and after the Merger and Acquisition?
c. Is there a difference in CAR at the bank before and after the Merger and Acquisition?
d. Is there a difference in DER at the bank before and after the Merger and Acquisition?
e. Is there a difference in ROA at the bank before and after the Merger and Acquisition?

f. Is there a difference in ROE at the bank before and after the Merger and Acquisition?

1.4. Research Objectives

The following are research objectives taken based on the background described above:

a. To analyze QR differences at banks before and after Mergers and Acquisitions.
b. To analyze the differences in LDR in banks before and after Mergers and Acquisitions.
c. To analyze CAR differences in banks before and after Mergers and Acquisitions.
d. To analyze the differences in DER on banks before and after Mergers and Acquisitions.
e. To analyze the differences in ROA at banks before and after Mergers and Acquisitions.
f. To analyze the differences in ROE at banks before and after Mergers and Acquisitions.

1.5. Research Benefits

The following are the research benefits that can be taken from this research are:

a. For Practitioners

This research provides information to companies and investors, to be used as a consideration in making decisions about the impact of banking companies that carry out mergers and acquisitions on the company's financial performance.

b. For Theoritical

This research can increase knowledge about the impact of merger and acquisitions on the financial performance of banking company.