The Effect of Mergers and Acquisitions on the Financial Performance of Companies Listed on the Indonesia Stock Exchange

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ABSTRACT

Mergers and acquisitions are strategic maneuvers involving the consolidation of two or more companies, aiming to improve overall company performance and gain a competitive advantage. This research seeks to evaluate the impact of mergers and acquisitions on the financial performance of companies listed on the Indonesia Stock Exchange. Using the PRISMA (Preferred Reporting Items for Systematic Reviews & Meta-Analyses) methodology, this research employs a literature review approach. Secondary data from various sources, including books, e-books, journals, and current news, were examined. The results suggest that mergers and acquisitions do not significantly impact the financial performance of companies. This may be due to the fact that the purpose of mergers and acquisitions is more focused on long-term aspects. The theoretical underpinning of this research centers on the understanding that mergers and acquisitions, as strategic actions, may not significantly influence the financial performance of companies in the short term. The results of the literature review indicate that there is no substantial impact on financial performance. This finding suggests that the primary objectives of mergers and acquisitions may be more aligned with long-term considerations, such as market positioning, synergies, and strategic growth, rather than immediate financial gains.

Keywords*: Merger, Acquisition, Financial performance, Indonesia Stock Exchange*

ABSTRAK

Merger dan akuisisi merupakan manuver strategis yang melibatkan konsolidasi dua atau lebih perusahaan, dengan tujuan meningkatkan kinerja perusahaan secara keseluruhan dan memperoleh keunggulan bersaing. Penelitian ini bertujuan untuk mengevaluasi dampak dari merger dan akuisisi terhadap kinerja keuangan perusahaan yang terdaftar di Bursa Efek Indonesia. Dengan menggunakan metodologi PRISMA (Preferred Reporting Items for Systematic Reviews & Meta-Analyses), penelitian ini menggunakan pendekatan tinjauan pustaka. Data sekunder dari berbagai sumber, termasuk buku, e-book, jurnal, dan berita terkini, telah diperiksa. Hasil penelitian menunjukkan bahwa merger dan akuisisi tidak berdampak signifikan pada kinerja keuangan perusahaan. Hal ini mungkin disebabkan oleh fakta bahwa tujuan dari merger dan akuisisi lebih berfokus pada aspek jangka panjang. Dasar teoretis dari penelitian ini berpusat pada pemahaman bahwa merger dan akuisisi, sebagai tindakan strategis, mungkin tidak secara signifikan

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memengaruhi kinerja keuangan perusahaan dalam jangka pendek. Hasil dari tinjauan pustaka menunjukkan bahwa tidak ada dampak substansial pada kinerja keuangan. Temuan ini menyarankan bahwa tujuan utama dari merger dan akuisisi mungkin lebih sejalan dengan pertimbangan jangka panjang, seperti posisi pasar, sinergi, dan pertumbuhan strategis, daripada keuntungan keuangan yang langsung..

***Kata kunci**: Merger, Akuisisi, Kinerja keuangan, Bursa Efek Indonesia*

INTRODUCTION

Today's business landscape is very competitive, and every company must continue to grow in order to survive and stay ahead of its competitors. To achieve this, there are several strategies that can be done. One such strategy is a business combination commonly known as Mergers and Acquisitions (M&A). Merger is merging two companies into one entity, with one of the original companies remaining the main entity (Amin & Ibn Boamah, 2020; Gautier & Lamesch, 2021; Hossain, 2021). Companies often opt for mergers in times of financial distress (Depamphilis, 2019; Ray, 2022). Acquisitions, on the other hand, involve taking over a company by purchasing its shares. Mergers and acquisitions refer to the act of merging several companies or acquiring ownership or control of another company (Piesse et al., 2022; Zuhri et al., 2020). Companies undertake such M&A activities to improve their financial performance and ensure their continued success. Many companies in Indonesia engage in merger and acquisition activities, believing that through such measures, they can increase their competitive advantage in the long run while increasing their enterprise value.

The study aims to assess the influence of M&A activities on companies' overall financial performance and competitive advantage. It utilizes the PRISMA methodology and a literature review approach to analyze secondary data from various sources, including books, e-books, journals, and current news. The study seeks to provide insights into the relationship between M&A and financial performance to contribute to a comprehensive understanding of the effects of M&A activities on company performance in the Indonesian market.

LITERATURE REVIEW

A merger is a consolidation tactic in which the acquiring company retains its own name and identity while taking over all the assets and liabilities of the acquired company (Gozali & Panggabean, 2019). A merger is a form of absorption in which a company combines or absorbs another company into its structure. Meanwhile, according to Stevanie and Mindosa (2019), a merger occurs when two companies agree to form a combined entity by combining the assets and liabilities of both.

Statement of Financial Accounting Standards (*Pernyataan Standar Akuntansi Keuangan*/PSAK) No. 22 explains that an acquisition, from an accounting perspective, is defined as an act of business combination in which the acquiring company obtains control of the net assets and operations of the acquired company. This can be done by providing certain assets, recognizing a liability, or issuing shares. An acquisition involves taking full ownership and control of a company that is stronger than the acquired company, even when the acquired company's name is retained (Kharisma & Triyonowati, 2021).

Financial performance is a metric used by companies to assess financial conditions, both positive and negative. (Stevanie & Mindosa, 2019). Evaluation of the financial condition of a company can be obtained through analysis of data documented in financial statements, which include the statement of financial position, income statement, and cash flow statement (Macinati & Anessi-Pessina, 2014; Catherine et al., 2021). According to Macinati & Anessi-Pessina (2014) and Catherine et al. (2021, a company's financial performance is a key element in assessing its operational success, which is reflected in the financial statements. As a tool to identify operational failures, financial performance measurement often utilizes ratios or indices. (Sumantri, 2017).

METHODS

This study uses the literature review method by applying the PRISMA *(Preferred Reporting Items for Systematic Reviews and Meta-analyses)* approach. Literature review is the process of organizing, collecting, reading, and evaluating research literature tailored to the needs of researchers. (Suryani et al., 2022). In the initial phase of research, a crucial step involves collecting data that can be applied to various types of research, including qualitative and quantitative models. Research literature plays an important role in this stage, as it involves reviewing the existing scientific literature on a particular topic. This review involves critical analysis, evaluation and synthesis of research findings, both theoretical and practical. To conduct this review, researchers can collect research articles from various sources such as books, e-books, journals, or current news sources. These articles can provide insight into analyzing the impact of sales, purchases, and mergers in a diversified portfolio, showing the results before and after mergers and acquisitions of companies listed on the IDX.

Through the use of the Google Scholar online platform, the researcher independently obtained the articles cited in this study. The researcher applied the following inclusion standards as references: 1) articles written in Indonesian, 2) research published between 2019 and 2023, and 3) articles related to the topics of mergers, acquisitions, and financial performance. In contrast, the exclusion criteria consisted of 1) publications that were not within the specified timeframe and 2) articles that did not meet the predetermined linguistic criteria. Based on keywords, a total of 6,350 articles were found in two online databases as of November 2023. In order to organize a more relevant review, the authors assigned a time range to the selected articles published from 2019 to 2023, resulting in 3,150 articles. After that, the authors applied exclusion criteria based on source type and subject, reducing the number of articles to 27. After that, the author sorted the articles by reading the titles and abstracts and accessing the full text to identify 8 articles that met the standards in qualitative studies. Details of the sorting process are illustrated in Figure 1.

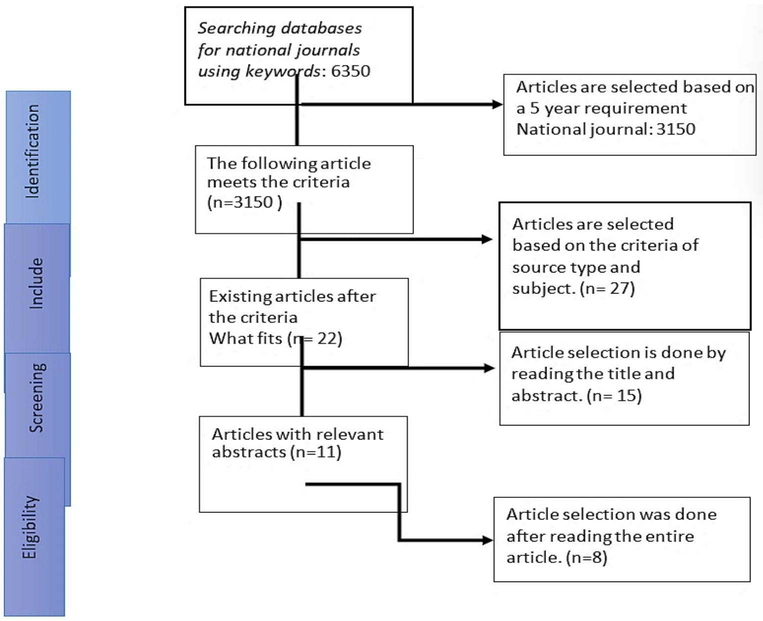

Figure 1. Flow chart of study selection

RESULTS & DISCUSSION

In this study, eight journal articles were used as references, of which seven articles indicated that there is no correlation between corporate mergers and acquisitions and corporate financial performance, while one article stated that there is a relationship between mergers and acquisitions and corporate financial performance. More information about each article can be found in Appendix 1.

Financial performance is an indicator companies use to assess financial conditions, describing positive and negative circumstances. The company's financial condition can be evaluated through the data contained in the financial statements. Mergers are mergers of two or more companies with the aim of improving the company's finances, while acquisitions involve the takeover of a company by purchasing its shares. The implementation of mergers and acquisitions by a business entity is done to achieve strategic goals and strengthen the company's financial capabilities. Financial performance is one of the fundamental components to evaluate the financial health of a company (Dewi & Widjaja, 2020), where the ratio is used as an analytical instrument to assess the financial condition of a company and evaluate management performance in a certain period of time (Kharisma & Triyonowati, 2021). According to Catherine et al. (2021), if a company undergoes a merger of a significant scale, the synergies arising from the merger activity can simultaneously lead to an increase in company profits.

Mergers and acquisitions are the process of merging two or more companies while maintaining one of the companies (Saleh & Kohar, 2020). The use of mergers and acquisitions by a business entity is done to achieve strategic goals and strengthen the company's financial capabilities (Suryani et al., 2022; Stevanie & Mindosa, 2019). Despite concerns that the merger may affect the company's financial performance, in the context of discussions on mergers and acquisitions, there is no significant impact on the company's financial performance.

CONCLUSION

Based on the results of the literature review, there are findings that mergers and acquisitions do not significantly impact the financial performance of companies. This may be due to the fact that the purpose of mergers and acquisitions is more focused on long-term aspects. Overall, the findings highlight that mergers and acquisitions represent strategic maneuvers involving the consolidation of two or more companies, with the aim of enhancing overall company performance and attaining a competitive advantage. This research contributes to the existing body of knowledge by seeking to evaluate the theoretical impact of mergers and acquisitions on the financial performance of companies listed on the Indonesia Stock Exchange. Utilizing the PRISMA (Preferred Reporting Items for Systematic Reviews & Meta-Analyses) methodology, this study employs a literature review approach to synthesize findings from various sources, including books, e-books, journals, and current news.

The theoretical underpinning of this research centers on the understanding that mergers and acquisitions, as strategic actions, may not significantly influence the financial performance of companies in the short term. The results of the literature review indicate that there is no substantial impact on financial performance. This finding suggests that the primary objectives of mergers and acquisitions may be more aligned with long-term considerations, such as market positioning, synergies, and strategic growth, rather than immediate financial gains.

The contribution of this research lies in shedding light on the nuanced relationship between mergers and acquisitions and financial performance. By highlighting the potential emphasis on long-term goals, this study provides valuable insights for practitioners, policymakers, and scholars. As a suggestion for future research, researchers may consider adding observation periods that may affect company performance. Thus, researchers can get a more comprehensive picture of company performance. Moreover, future research may consider incorporating extended observation periods to capture the evolving effects of mergers and acquisitions on company performance, thus providing a more comprehensive understanding of their impact.

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Appendix

Appendix 1. Summary of Journal Articles

No.	Articles/Journals	Authors, year	Research Design	Variables	Analysis	Results
1	Analysis of the Financial Performance of Acquiring Companies Before and After Mergers and Acquisitions in Manufacturing Companies Listed on the Indonesia Stock Exchange	Widiastuti Murtiningru, 2021	Quantitative	*Dependent Variable: Financial Performance Independent Variable: Mergers and Acquisitions*	Non-parametric Test	There is no impact of mergers and acquisitions on the company's financial performance.
2	Analysis of the Effect of Mergers and Acquisitions on Financial Performance and Abnormal Return in Companies on the Indonesia Stock Exchange in 2014-2018	Sylvi Liani Dewi, Indra Widjaja, 2020	Quantitative	Dependent Variable: Financial Performance and Abnormal Return Independent Variable: Mergers and Acquisitions	Wilcoxon Signed Rank Test and Paired Sample T-Test	There is no significant difference in the financial performance of companies before and after mergers and acquisitions, and in abnormal returns, there is no difference before and after mergers and acquisitions.
3	Analysis of Diversification Impact after Mergers and Acquisitions on Financial Performance of Companies Listed on the IDX	Dian Fajar Suryani, fahri Ansari Siregar, Ridha Shafina Nur, and Zulfahmi Napitupulu, Suahiri, 2022	Qualitative	Dependent Variable: Financial Performance, Independent Variable: Mergers and Acquisitions	Literature Review	Mergers and Acquisitions do not have a significant impact on the company's financial performance.
4	Effects of Mergers and Acquisitions on Financial Performance of Publicly Listed Companies	Mia kurniati, Asmirawati, 2022	Quantitative	Dependent variable: Financial Performance Independent Variable: Mergers and Acquisitions	Financial Ratio Analysis	There is no significant difference between the period before and after the merger and acquisition on the company's financial performance.
5	Analysis of the Effect of Mergers and Acquisitions on Financial Performance in Non-Financial Sector Companies Listed on the IDX 2014 - 2018	Rahmat Saleh, Abdul Kohar, 2020	Quantitative	Dependent Variable: Financial Performance Independent variable: Mergers and Acquisitions	Paired Sample t Test	There is no significant difference between the company's financial condition before and after the merger and acquisition.
6	Analysis of the Effect of Mergers	Firda Mega Kharisma,	Quantitative	Dependent variable:	Wilcoxon Signed	There is no difference in

No.	Articles/Journals	Authors, year	Research Design	Variables	Analysis	Results
	and Acquisitions on the Financial Performance of Manufacturing Companies on the Indonesia Stock Exchange	Triyonowati, 2021		Financial Performance Independent Variable: Mergers and Acquisitions	Rank Test	the year before and after the merger and acquisition, and this has no impact on the company's financial performance.
7	Analysis of the Effect of Mergers and Acquisitions on the Financial Performance of Manufacturing Sector Companies Listed on the Indonesia Stock Exchange for the 2015-2019 Period	Putra, Tomi Reviayana, 2021	Quantitative	Dependent variable: Financial Performance Independent variable: Mergers and Acquisitions	Paired Sample t Test	Mergers and acquisitions have a significant impact on a company's financial performance.
8	Analysis of the Impact of Mergers and Acquisitions on the Financial Performance of Companies Listed on the Indonesia Stock Exchange	Sulaiman, Muhammad Rivai, 2021	Quantitative	Dependent variable: Audit Quality Independent variable: Accountability, Competence, Independence	Panel data regression analysis	Mergers and acquisitions do not have a significant impact on a company's financial performance.